FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY OCTOBER 27 1993 D8523A

Cost-cutting helps IBM to curb nine-month losses

Cost-cutting helped US computer giant IBM to lower than expected losses of $48m for the third quarter, but chairman Lou Gerstner warned: "The company's cost and expense structure remain uncompetitive." He said IBM could become profitable again as its gross margins fell into line with those in the rest of the computer industry. Page 15

Israel plans deals with Arabs: Israel is negotiating multi-billion dollar energy projects with Arab partners and could soon sign a deal with Qatar to start work on a $1.8bn natural gas scheme. Page 14

Union threat to spread Air France action:

Air France pilots (above) joined a demonstration at Orly airport south of Paris as unions threatened to widen the action to other public sector groups. The strike has continued despite government concessions on an austerity plan for Air France. Yesterday a union leader said those concessions set a precedent and protests would now be launched against planned job cuts in other public sector concerns. Page 14; High flier takes control, Page 3

UN finds signs of Bosnia atrocities: UN peacekeepers entered the Moslem village of Stupni Do and found it destroyed. They said there was evidence that Croat forces committed atrocities. UN curbs aid, Page 3; No news is bad news, Page 12

Northern Ireland peace plan: British prime minister John Major and his Irish counterpart Albert Reynolds are to discuss a peace plan for Northern Ireland. Their Friday meeting was confirmed despite rising violence in Belfast since Saturday's terrorist bombing killed 10 people. Page 9

Gloomy report on UK industry: The Confederation of British Industry said that over the last four months manufacturing orders and output were flat, export orders fell, more jobs were lost and business confidence weakened. Page 9; Lex, Page 14

US consumer confidence fell in October as consumers sharply lowered their expectations for the immediate future. The Conference Board Consumer Confidence Index was 59.4 compared with 63.8 in September.

Volvo: Swedish opposition is growing to Volvo's plan to merge its vehicle making with Renault of France. Page 15; Lex, Page 14

Substitute sought for Seat: The Spanish regional government of Cataluña promised Pta6bn ($45m) in credits and guarantees to auto-parts suppliers willing to set up business on the site of Seat's apparently doomed plant in Barcelona.

Georgian town recaptured: Georgia said its troops had recaptured the strategically important town of Senaki from forces loyal to former president Zviad Gamsakhurdia. Picture, Page 4

Haiti's frightened parliament failed to muster a quorum to consider a UN peace plan to return ousted president Jean-Bertrand Aristide to power because many senators were too scared to attend.

Den Norske Bank, Norway's biggest bank, moved out of the red with its best result since its formation from a 1990 merger of Den Norske Creditbank and Bergen Bank. Nine-month net profits of NKr699m ($100m) compared with a NKr2.46bn loss a year earlier. Page 15

Hope for locust control: Scientists in Kenya have isolated chemicals which may influence whether desert locusts swarm and devastate crops. The chemicals make many locusts lay eggs at roughly the same time. This creates large numbers of insects which swarm in search of food. Page 24

Ivory cache uncovered: South African police seized illegal ivory worth $300,000 and said they had broken a big Taiwanese smuggling ring.

Irish writer wins British prize: Dublin-born writer Roddy Doyle won Britain's £20,000 ($30,000) 1993 Booker literary prize for his novel *Paddy Clarke Ha Ha Ha*.

STOCK MARKET INDICES

FT-SE 100:	3165.3	(-19.5)
Yield	3.71	
FT-SE Eurotrack 100	1377.10	(-1.59)
FT-A All-Share	1584.82	(-0.5%)
Nikkei	20,023.60	(-285.73)
New York lunchtime		
Dow Jones Ind Ave	3655.72	(-17.89)
S&P Composite	462.98	(-1.22)

US LUNCHTIME RATES

Federal Funds:	3⅛%
3-mo Treas Bills: Yld	3.127%
Long Bond	103⅝
Yield	6.0%

LONDON MONEY

3-mo Interbank	5⅝	(Same)
Liffe long gilt future:	Dec 115	(Dec114)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$16.3	(16.44)

Gold

New York Comex (Dec)	$370.3	(370.5)
London	$367.25	(371.75)

STERLING

New York lunchtime:		
$	1.4785	
London:		
$	1.4795	(1.486)
DM	2.4875	(Same)
FFr	8.6575	(8.6825)
SFr	2.1825	(2.19)
Y	160.8	(161.25)
£ Index	80.3	(80.5)

DOLLAR

New York lunchtime:		
DM	1.6816	
FFr	5.857	
SFr	1.4784	
Y	108.235	
London:		
DM	1.681	(1.6735)
FFr	5.8525	(5.8425)
SFr	1.4795	(1.4735)
Y	108.2	(108.4)
$ Index	66.4	(66.1)
Tokyo close Y 108.61		

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft 185	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta210
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L8000
						UAE	Dh11.00

Traditional parties suffer as Canadian voters seek political reforms

Chrétien vows national unity

By Bernard Simon in Toronto

MR Jean Chrétien, Canada's incoming prime minister, pledged yesterday to work for national unity in the wake of stunning gains by two fledgling and potentially divisive regional parties in Monday's general election.

The election transformed Canada's political landscape like no other in its 126-year history. Mr Chrétien's Liberal party won a landslide victory, gaining 178 out of 295 seats in the House of Commons. But the strong performance by the two regional parties - the separatist Bloc Québécois, and the Reform party, whose main strength is in western Canada - could increase strains between English and French-speaking Canadians.

Two of Canada's traditional three national parties suffered devastating setbacks at the polls, as voters sought a change from the tough economic times of recent years. One political organiser estimated that at least 40 per cent of the electorate voted for a party which they had never before supported.

The Progressive Conservatives, who have held office since 1984, won only two seats, in spite of gaining 16 per cent of the popular vote. The Tory vote was split in many constituencies by Reform, allowing the Liberal candidate to come up the middle.

Ms Kim Campbell, who took over as Conservative leader and prime minister four months ago, was defeated in her Vancouver constituency. Under party rules, a new leadership convention must take place within a year. Ms Campbell is not expected to stand for re-election.

The BQ, which won 54 seats, will form the official opposition. Mr Lucien Bouchard, its leader, said in his victory speech that "the Bloc will be positive and responsible in parliament, while vigorously pursuing sovereignty for Quebec". He added: "we want to correct the inequities of the system to give Quebec a bigger slice of the pie."

Pages 6 and 7

- Liberal party softens its approach to freer trade
- Tradition of give and take is swept away
- Quebec 'headed towards freedom'
- Bank supports Canadian $
- Growth prospects rise

Page 13

- Editorial Comment

The Reform party, which opposes official bilingualism and other concessions to Quebec, gained 52 seats, the bulk in Alberta and British Columbia. The left-of-centre New Democratic party held only eight of its 44 seats.

Mr Chrétien said he understood the frustrations which led voters to support the BQ and Reform. He pledged to "try to bring us together by appealing not to what divides us, but what unites us." The Liberals won seats in all 10 provinces.

Ms Campbell took office amid high hopes that she would be able to erase the unpopularity of Mr Brian Mulroney, her predecessor, but her intelligence and glamour were offset by political inexperience. While Ms Campbell emphasised the painful message of deficit reduction on the campaign stump, the experienced Mr Chrétien brought a more reassuring message of job creation.

Reuter

Triumphant: Incoming Canadian prime minister Jean Crétien, with his wife Aline alongside, waves to supporters after his Liberal party won a landslide victory in Monday's general election

Mr Chrétien is expected to visit Washington within the next few months to discuss the future of the North American free trade agreement with President Bill Clinton. The Liberals have pledged to try to renegotiate the accord. Most observers predict that a face-saving formula will be found to allow them to implement Nafta as scheduled on January 1, provided it is approved by the US Congress next month.

In Washington Mr Clinton, who called Mr Chrétien to congratulate him, told reporters: "I see no reason to renegotiate the agreement... I think we should just go ahead. I think all the countries involved have a lot at stake in proceeding."

Mr Chrétien also promised that one of his first acts on taking office would be to cancel a C$5.8bn ($4.3bn) order for 50 military helicopters built by the UK's Westland Group and Agusta of Italy. The UK-Italian consortium, its local contractors and the Canadian military are lobbying to include the helicopter purchase in a wider review of defence policy.

Sanctions delayed as Japanese plan open market

By William Dawkins in Tokyo and Nancy Dunne in Washington

THE US yesterday postponed the imposition of economic sanctions against Japan after Tokyo announced plans to inject fresh competition into its scandal-ridden public sector construction market.

This is the first tangible sign of improved US-Japanese relations since the arrival in August of the coalition government of Mr Morihiro Hosokawa, which has pleased the Clinton administration by promising to scrap restrictive practices and to cut red tape generally.

It comes against a backdrop of continuing serious differences between Tokyo and Washington on foreign access to all Japan's markets. But it indicates that Japan and the US are on the way to resolving differences on public procurement in construction, which had threatened to provide another stumbling block to completion of the Uruguay Round of world trade liberalisation talks.

Mr Mickey Kantor, the US trade representative, said he would recommend to President Bill Clinton a delay until January 20 in the sanctions against Japan which had been due to go into effect on November 1. In the meantime, the US will monitor Japanese reform efforts.

The Japanese proposals would make it easier for foreign companies to tender for construction projects by national and regional government and agencies, worth Y8,537bn ($80.3bn) this year, according to the finance ministry. That is, however, a small fraction of the total private and public sector construction market, estimated to be worth at least Y100,000bn by Mr Etsusuke Masuda, director of equity research at Salomon Brothers Asia.

Tougher penalties against companies caught bribing officials or rigging bids are also proposed. This is a response to the widening net of construction industry scandals, involving Japan's top six construction companies,

Continued on Page 14

US demands; Uphill task to win orders, Page 5

Delors sets agenda for reducing jobless

By Lionel Barber and David Gardner in Luxembourg

MR Jacques Delors, European Commission president, said in Luxembourg yesterday he was convinced the EC could reduce mass unemployment, which is "paralysing European societies".

This would be achieved through a mix of job-sharing, part-time work and wage flexibility, according to the latest draft of the white paper on competitiveness, growth and employment.

The Commission has set a target of creating 20m new jobs by end of this decade, in its blueprint for tackling mass unemployment in Europe.

The white paper, which is being co-ordinated by Mr Delors, will get its first real airing at this Friday's special EC summit in Brussels. The final version will be the centrepiece of December's meeting of EC leaders.

The creation of 20m jobs, to reduce current EC unemployment rates of 10.4 per cent to 5 per cent by the year 2000, would match the performance of the US economy in the 1980s. It implies annual growth rates between 3 and 3.5 per cent, levels which are not likely to start until 1995.

Mr Delors said in Luxembourg yesterday that he was convinced the EC could reduce mass unemployment, which was "paralysing European societies".

"I have a lot of ideas in my head and I hope I can convince the heads of government," the Commission president said, a day after being rebuffed by EC finance ministers on his ideas for boosting economic growth.

The Commission draft calls for an overhaul of EC labour markets, and an increase in investment from 19 per cent to 23-24 per cent of Community GDP, a figure last seen in 1964-74.

"The slower expansion of private consumption would be the price to pay for increasing competitiveness, job creation, and therefore future prosperity," the draft says.

The Commission makes clear that it is not advocating EC-wide legislation. Reforms should be tailored to the specific needs of member states, but carried out within a mutually reinforcing framework.

Among the chief recommendations of the draft white paper are:

- New incentives for part-time work. This would reduce the average hours worked and allow the number of jobs to increase.
- Greater wage flexibility, including possible dilution of minimum wage legislation.
- Employment costs. The paper says labour should not be taxed more heavily than capital, and calls for a progressive reduction in non-wage costs for lower-skilled jobs.
- Taxes on pollution and energy to compensate for revenue losses as a result of the reduction in employment costs.

Growth figure rejected, Page 2

Ferranti in talks with secret bidder at token 1p a share

By Our Industrial Staff

THE CURTAIN began to fall yesterday on one of the most distinguished names in British industry. Ferranti, the deeply troubled UK electronics company, announced it was in talks with an unnamed bidder at a token 1p a share, a bid which would signal the end of independence for the company and value it at a mere £9.7m ($14.6m).

This compares with a peak value of £845m in early 1989, just before a disastrous $1.1bn fraud was uncovered at its US subsidiary International Signal and Control (ISC).

Founded at the end of the last century by Liverpool-born Sebastian Ziani de Ferranti, the company became a flagship of UK technology. It was a pioneer in semiconductors, developing the first European microprocessor in the 1970s. Its computer division, now part of Fujitsu of Japan, developed a scientific computer which was competitive with the largest IBM machines. In the early 1960s it was one of the pioneers of numerical control for machine tools, a field now dominated by Japan, Germany and the US.

The declining fortunes of Ferranti ....Page 21

Lex ....Page 14

Speculation on the unnamed bidder focused yesterday on rival defence companies, since two-thirds of Ferranti's business consists of defence work. GEC, which bought large parts of Ferranti's defence business after the ISC fraud, refused to comment. British Aerospace denied any involvement. Thomson of France, which has a joint venture with Ferranti in sonar equipment, was unavailable for comment.

Ferranti emphasised that while it was in discussions, there was no certainty of an offer being made. Earlier this month it was obliged by law to call an extraordinary meeting of shareholders, since mounting losses meant its net worth had fallen to less than half its share capital. Mr Eugene Anderson, chairman, told shareholders he would seek to strengthen the balance sheet through equity injection or strategic partnership.

The indicated price of 1p per share took the stock market by surprise yesterday. The shares had started the day at 9.25p, and they closed at 2.5p in heavy trading.

The company's likely loss of independence is chiefly attributable to the fraud at ISC, whose head Mr James Guerin received a 15-year jail sentence last year. However, it had also been criticised for poor management and loss of direction. A City of London analyst said last night: "ISC was a body blow to a company which looked dodgy already. It hadn't moved with the times."

Ferranti has recently been struggling to land defence contracts, both in the UK and the Middle East. It said last night that one large contract with Bahrain was still under discussion.

CONTENTS

Defenders of Emu deploy their forces

By Andrew Hill in Brussels

THE Belgian presidency of the EC, Mr Jacques Delors, Commission president, and European Community employers, yesterday threw their weight behind existing plans for economic and monetary union.

Mr Philippe Maystadt, Belgian finance minister, said the European Monetary Institute – forerunner of a European central bank – should play a forceful role in preparing for a single currency by 1999.

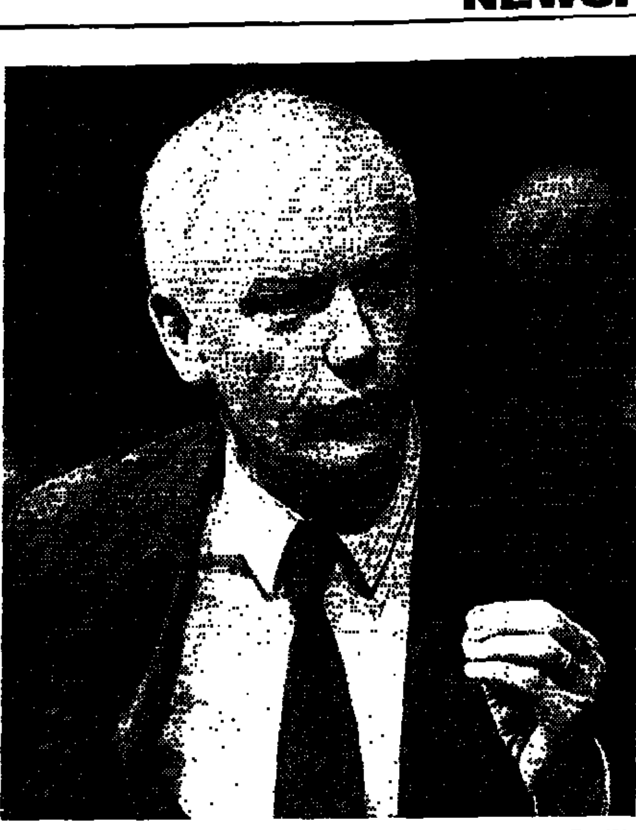
The EMI will begin its work on January 1, 1994, provided EC leaders can decide on a site for the institution at their summit in Brussels on Friday.

Mr Delors also stressed the importance of the Emu objectives, and the role of the EMI. In an interview for Belgian television, he said the EMI would "round up the lost sheep (among EC economies), give new stability to a relatively fixed exchange rate system, and lead to economic convergence". The currency turmoil of the last year has left the European monetary system in disarray and recession has raised doubts about the original plans for economic union. Mr John Major, the British prime minister, recently dismissed the timetable for a single currency as "folly".

But Mr Maystadt, one of the EC's longest-serving finance ministers, said yesterday that the Maastricht deadline of 1999 for monetary union was still feasible, even if the more ambitious target of 1997 would be difficult to achieve because of the EC's economic problems.

In an interview with the Financial Times, Mr Maystadt also defended the nomination of Mr Alexandre Lamfalussy as the first president of the EMI. The choice should be confirmed by EC leaders on Friday. Mr Maystadt said Mr Lamfalussy, Belgian general manager of the Bank for International Settlements in Basle, would give a new impetus to the Maastricht aims. "We know that Mr Lamfalussy is really convinced of the need for Europe to go to a single currency: he's a true believer in the single currency and that's not the case with all the bank governors."

He said the EMI would be "a more permanent and more objective supervisory body for the European monetary system" than existing inter-governmental bodies like the secretive EC monetary committee. Unice, which represents EC employers' federations, also called for EC leaders to refocus on the Emu objectives. "We think that the single market without a stable monetary relationship will be very difficult to sustain," said Mr Carlos Ferrer, Unice's president.



Tony Kirk

Maystadt believes deadline for monetary union is still feasible

EC growth figure rejected

By Peter Norman, Economics Editor

THE suggestion by Mr Henning Christophersen, the European Community's economic affairs commissioner, of 2 per cent growth in the EC next year was branded as over-optimistic by private sector economists yesterday amid signs that it is incompatible with the latest internal EC commission forecasts.

On Monday, Mr Christophersen told journalists at the EC finance ministers' meeting in Luxembourg that EC-wide growth could be between 1.5 per cent and 2 per cent next year if the latest German growth forecasts turned out to be accurate.

However, it emerged while Mr Christophersen was making his prediction that commission forecasters in Brussels were starting a two-day meeting with colleagues from EC member states armed with internal commission forecasts pointing to less than 1 per cent EC-wide growth in 1994.

Mr Christophersen appeared to base his remarks on projections by five of Germany's six leading economic research institutes forecasting 1.5 per cent growth in Germany next year. Such a growth rate would boost EC-wide economic growth by about 0.45 per cent.

But, according to EC officials, the commissioner seemed not to take into account internal commission forecasts that have downgraded 1994 growth from 1.25 per cent published in June to less than 1 per cent. While this week's forecasters' meeting might lead to an upgrading of the commission forecast, past experience suggests that any change would be small and typically around 0.2 percentage points.

Mr Christophersen's suggestion that growth could reach 2 per cent surprised EC finance ministries yesterday because he had not mentioned it during Monday's meeting. Private sector economists also doubted whether his upbeat forecast was soundly based.

Mr George Magnus, international economist of S G Warburg Securities in London, said Mr Christophersen's forecast was "wishful thinking" and that 1 per cent EC growth "was just about achievable". Mr Martin Hüfner, chief economist of Bayerische Vereinsbank in Munich, said 2 per cent growth "looked very optimistic".

The German growth forecasts on which Mr Christophersen based his remarks are contentious. They were rejected by one of the six German institutes and criticised by the association of German private banks as being too optimistic.

Reuter

Christophersen: economists said his forecast was over-optimistic

Sixteen divides Twelve

By David Gardner in Luxembourg

EFFORTS by the Belgian presidency of the EC to keep a potentially damaging row over the relative voting power of big and small Community states out of this Friday's Brussels summit looked yesterday as though they might have failed.

A discussion by foreign ministers of the Twelve on how to adjust the EC's institutional arrangements to accommodate four small countries negotiating entry into the EC by 1995 - Austria, Finland, Sweden and Norway - ended in a stand-off between the big and small member states.

Germany, the UK, France and Spain are looking to adjust the qualified, or weighted, majority voting system, to ensure they and their likely allies will continue to be able to block unpalatable legislation, after the Twelve become the Sixteen. They also want to ensure that the six-monthly rotation of the EC presidency, now alphabetical, will always ensure that a European power is involved in EC foreign policy, by adjusting the "troika" system of representation through the current, preceding and succeeding presidencies.

All the small member states said yesterday that institutional changes should wait until after enlargement, and be dealt with at the EC's next constitutional review in 1996. A debate now would "fuel divisions in the EC which we do not need at this juncture", said Mr Dick Spring, Irish foreign minister. Others said any appearance of rewriting the rules to favour larger states could sink the enlargement negotiations. "This is a stand-off," said a diplomat from one small member state, "at the end of the day we are going to have to decide do we want enlargement or do we want institutional reform."

But Mr Douglas Hurd, UK foreign secretary, stressed: "It is in the interests of Great Britain that there should be an adequate system of blocking minority (voting) after the entry of the new members."

The UK, Germany, France and Spain, acknowledged that it was a very sensitive issue, but said that although the Belgian presidency was refusing to put it on the summit agenda, it would almost certainly come up in discussions.

Some Nordic and Alpine fresh air

Brussels summit will take heart from progress on enlargement, writes David Gardner

AT THEIR summit in Brussels on Friday, a rather battered collection of EC leaders will not only be able to cheer themselves that the Maastricht treaty is now ratified, but take heart too that there are at last signs of progress on bringing four Nordic and Alpine countries into the Community by 1995.

Amid doubts over the viability of monetary union, the growing jobs crisis and Europe's failure to bring peace to Bosnia, enlargement to bring in Austria, Sweden, Finland and Norway is a comfortingly solid goal for the Community to set course for.

It has not often seemed that way since the glacially slow negotiations started with these members of the loose European Free Trade Association (Efta) in February. The summit is set to force the pace of the talks, possibly acting on a German proposal made yesterday to hold more regular ministerial negotiations between the Twelve and the Four.

On Friday, nonetheless, the European Commission should be able to report to the summit that most of the candidate countries' legislation has been argued into compatibility with the EC's single market, and that the Twelve and the Four have taken big strides in aligning health and safety and veterinary standards and indirect taxation.

What is more important, the Commission can at last point to the first signs of progress on the make-or-break issues of the enlargement talks: the compatibility of the (often higher) environmental standards of the applicants, and how to pay for their (much higher) agricultural and regional subsidy regimes. All four applicants will hold a referendum on EC accession, and need to convince their increasingly Euro-sceptical peoples that the Community represents no threat to the quality of their lives and their very "green" identities.

Environmental issues, according to an internal Commission document, "may prove to be decisive for the successful conclusion of the enlargement exercise". All four applicant governments fear a No vote if the EC is seen to be diluting what they consider higher standards in order to safeguard border-free trade.

The Brussels enlargement task force has thus evolved a three-tier approach, so far well-received by the applicants. Where standards are equivalent, if different, such as on car emission limits, the EC should refuse to budge. Where the EC has set target dates for raised standards, for example on safety belts, applicants would get transitional exemptions. On the trickiest issues, for instance health labelling on products or use of certain pesticides, the EC is proposing to grant transitional exemptions with a review after three years, when applicants should be in the EC and taking part in amending the legislation.

The psychology of this approach is as important as the details, given attitudes prevalent in applicant countries that entry is all right just so long as it is the EC which is joining them. "It is not unintentional," one senior Commission negotiator remarks archly, "that it sounds like they're pulling us up to their standards."

But the Commission is adamant that the new member states will not be allowed to use border controls to keep EC products out for environmental reasons. Thus the EC insists that Austria can only keep its transit agreement with the Community limiting EC trucks passing through its Alpine passes if it operates the same curbs on Austrian and non-EC lorries.

That attitude will be hard to maintain, however, if the Brussels negotiators lose the argument within the Commission over how to deal with the applicants' heavily subsidised Arctic and Alpine agriculture, which the Four are determined to preserve to keep their countries more evenly populated.

In previous enlargements, farm price support differences have been dealt with by border levies to even them out. The differences to be ironed out in this case range from farm price subsidies which are 25 per cent higher than the EC's in Austria to 100 per cent higher in Norway - by because of the single market there will be no borders at which to do the levying.

Some Commission agriculture and customs regime officials are arguing that the new member states could keep border controls until their farm prices move into line with the EC's, what would be a long process. The issue has not been decided, but the enlargement negotiators view any such dilution of the single market with horror.

> 'As far as the EC regional funding goes, they don't need electricity and roads. Their abattoirs are better than our houses. It's better to be a cow up there.'

"If you accept border controls for agriculture it's hard to stop them being used for other purposes," one senior official says. "We wouldn't get free competition in their markets." The careful compromises emerging on environment and health and safety standards, moreover, could be unravelled by border controls, he adds.

The solution he advocates is direct income compensation to farmers in the four countries, which would cost an estimated Ecu2.2bn (£1.7bn) a year. The net contributions to the EC budget the Four are expected to make would be around double this.

The next stage of the argument would therefore be how to share out the cost of the compensation, and how to finance lavish regional subsidies, which in the Nordic countries are linked to concern for the security of their empty northern territories.

EC regional policy, geared to helping backward and industrially stricken areas, does not really measure up to northern Nordic needs. "They don't need electricity and roads. Their abattoirs are better than our houses," says one negotiator. "It's better to be a cow up there." Again, an income support scheme linked to differences between regions is being looked at.

But even if the way forward is now in view, there is still a lot to negotiate: Norwegian determination to retain full control over its energy and fisheries resources; the voting weight and representation these four small countries would get inside EC institutions, at a time when the UK, France, Germany and Spain are seeking to increase big countries' influence; and how the Four, all except Norway formally neutral, would fit into the Maastricht treaty's foreign and security policy.

On Friday they will be looking for clear signs that the 12 want to find a way through the thicket.

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EC summit faces disruption

Strike called over Belgian austerity plan

By Andrew Hill in Brussels

BELGIUM'S Socialist trade unions yesterday called for a one-day public transport strike on Friday to protest against the government's proposed austerity package.

The day of the strike coincides with the summit of European Community leaders in Brussels, which as a result will face disruption from traffic chaos, stoppages and demonstrations.

Last week, the Socialist unions walked out of talks with government and employers on how to solve the problems of lack of competitiveness, unemployment and a growing social security deficit.

Yesterday, Mr Jean-Luc Dehaene, prime *minister*, unveiled outline measures which the country's centre-left coalition will now try to push through on its own. The task is particularly delicate because there are doubts whether the French-speaking Socialist members of the coalition will support proposals opposed by the unions.

The unions are angry about plans to limit wage costs. Mr Dehaene has suggested freezing pay and delaying the impact of salary increases for 1994 which have already been agreed with employers.

Senior Belgian government officials said yesterday that the *package of measures would* try to achieve the same aims as last week's failed talks, but without inflaming the unions and risking the collapse of the coalition.

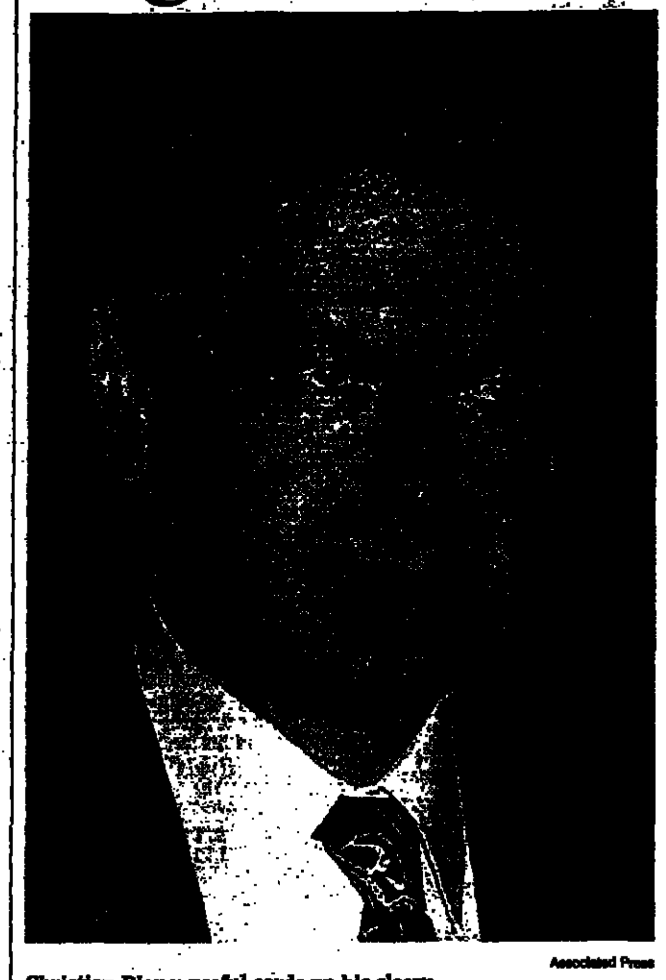
A statement issued after yesterday's cabinet discussion of the package tried to reassure the unions by promising that the government would concentrate on improving employment. But Mr Dehaene warned at a news conference that some form of wage restraint would almost certainly have to be included in the final measures.

Mr Dehaene, who will chair Friday's EC summit, will start talks on the detail of the measures with his coalition partners on Saturday morning.

Officials admitted yesterday that the failure to agree a framework *deal* with the unions and the employers would make the task much more difficult.

High flier takes control of grounded airline

Air France's new chief has plenty of experience of militant opposition at home and abroad, writes **John Ridding**



Christian Blanc: useful cards up his sleeve

Associated Press

MR Christian Blanc, due to be officially confirmed today as the head of Air France, has clashed with striking workers on the Paris underground and dealt with militant separatists in an overseas colony. But he may still be forgiven for having qualms about his new challenge.

He takes over the loss-making airline when it is mired in a bitter industrial dispute. His predecessor, Mr Bernard Attali, was undermined by the French government which decided to scrap a recovery plan he deemed essential for the airline's survival. Mr Blanc now has three months to draw up a new package to restore health to the airline and resolve the strikes which have paralysed the state-owned national carrier.

It is hardly an enticing prospect. The strength of union opposition to restructuring measures was clearly illustrated yesterday in a show of *force, dubbed "Black Tuesday"* by the French press, which saw the airline's operations halted by co-ordinated action by groundstaff, airport workers, pilots, cabin staff and union members at Air France's domestic airline subsidiary.

Mr Blanc, however, has some useful cards up his sleeve. As former head of RATP, the Paris bus and metro operator, he has experience of managing a public sector group and of implementing reforms in the face of powerful union opposition.

During his tenure at RATP, between 1989 and 1992, Mr Blanc succeeded in decentralising the group's operations, reducing the number of management layers from seven to three, and rationalising pay scales, a particularly sensitive issue for the unions.

But he also experienced the risks of reform. In 1992 he was faced with a strike by workers on the Paris metro as a result of his attempts to guarantee a minimum level of service during industrial disputes and to reduce pay for striking employees. After failing to win support from the Socialist government of Mr Pierre Bérégevoy, he resigned.

"The experience of the strike of 1992 shows two things about *Mr Blanc,*" *says one executive* at RATP. "He is determined to introduce management reforms and he will not compromise."

Another former colleague says he is likely to have demanded a free hand in managing Air France. But this may be a tall order, particularly in the light of Mr Attali's sudden loss of government support.

If RATP was a turbulent period for Mr Blanc, it was peaceful compared with his previous challenge in New Caledonia. In 1988, he was appointed by Mr Michel Rocard, then Socialist prime minister, as head of a mission to resolve a conflict sparked by an independence movement in the South Pacific colony. The mission played a large part in the conclusion of the Matignon Accords which defused the dispute and represented one of the successes of the Rocard administration.

Mr Blanc's achievement in New Caledonia and his stint at RATP should provide valuable experience at Air France. So, too should his political contacts.

As a close friend of Mr Rocard, now the leader of the Socialist party, it may appear curious that he has been picked by Mr Edouard Balladur's *centre-right government* to resolve its first serious industrial dispute.

His reputation as a tough negotiator is the most important explanation. His left-wing credentials might also help in negotiations with the hitherto implacable strikers.

Mr Blanc should not, however, take this for granted. Mr Louis Viannet, general secretary of the Confédération Générale du Travail, one of the union groups spearheading the protests at the national carrier, issued a stern warning yesterday. "Mr Blanc should not try to do at Air France what he sought to do at RATP," said Mr Viannet in a radio interview. He said the Air France chief should take into account the "errors that have been made" at the airline and should discuss fully with the unions any measures he plans to take.

That leaves Mr Blanc in a difficult position. The government, despite its climbdown, still says it wants to implement the 4,000 job cuts envisaged in Mr Attali's plan, although it has said the cuts can be achieved without forced redundancies. The airline, which is forecast to lose more than FFr5bn (£580m) this year, remains in urgent need of *restructuring.*

Mr Blanc's first three months – the time the government allowed for a new recovery plan to be drawn up – are therefore likely to represent the sternest test of his negotiating skills.

Tapie to resign at football club

By Alice Rawsthorn in Paris

MR BERNARD TAPIE, the controversial French politician and businessman, yesterday announced that he plans soon to resign as chairman of Olympique-Marseille (O-M), the scandal-scarred football club.

He broke the news in an interview with L'Equipe, the sports newspaper, adding that his position at O-M was incompatible with his political ambitions.

Mr Tapie, who *has a seat in* parliament as an independent Socialist and had a short stint as urban affairs minister in the last Socialist government, plans to lead a group of left-wing radicals in next June's European elections. He is also expected *to* stand *as* mayor of Marseilles in the next general election.

However, Mr Tapie, who took over O-M in 1986 and has since invested around *FFr130m (£15m) in the club to* turn it into France's top team, said he had not yet finalised plans for his departure.

He is famous in France for his temperamental approach to business affairs and earlier this month vowed publicly that he would stay at O-M.

He told L'Equipe he had already "made contact" with prospective investors in the Marseilles team. He had received inquiries from "a big furniture manufacturer, an upmarket jeweller and a department store chain".

O-M is struggling to stabilise its finances following its ban from this season's European Cup, which it won last spring – the first French club to do *so. It has since been sullied by* the scandal over allegations that its officials tried to bribe players from another French team to rig one of last season's league games.

UN curbs Bosnia aid until safety guarantees given

By Laura Silber in Belgrade and Reuter in Luxembourg

THE United Nations yesterday suspended delivery of emergency aid to more than 1m people stranded in central Bosnia until warring Croat and Moslem forces guarantee the safety of relief workers.

Mr Boutros Boutros Ghali, the *UN secretary general, took* the decision after UN convoys on Monday were hit by machine gun and mortar fire, killing a Danish lorry driver and wounding nine UN workers.

Lord Owen, the European Community's peace mediator, said in Luxembourg yesterday he was sceptical about using force to get supplies through to people as winter approached. He was addressing EC foreign ministers.

The UN High Commissioner for Refugees *said yesterday* that the area under suspension included Mostar in the south-west, and towns in central Bosnia where Croats and Moslems were fighting. Ms Sylvana Foa, spokeswoman of the UNHCR said operations would get under way once the parties gave credible guarantees for safe passage.

The decision to suspend some aid convoys would make it extremely difficult for people in some areas such as Mostar, although others would still get help, Lord Owen said.

Lord Owen said the idea of creating a "safe route" from the Adriatic coast to Sarajevo was being considered, but he pointed to enormous problems with using force.

Mr François Mitterrand, the French president, called on Monday for help, including US military protection, to force open the road to Sarajevo.

Meanwhile, commanders of the mainly Moslem Bosnian army yesterday moved to reassert control over their forces in Sarajevo, announcing a crackdown on soldiers believed to be involved in black marketeering and theft.

Two commanders were being sought, Radio Sarajevo said yesterday, although there was no confirmation that they had been arrested along with 202 members of the two brigades.

SPD rejects plans for new generation of extra-safe reactors

Doubts over German nuclear industry

By Quentin Peel in Bonn

GERMANY'S opposition Social Democrats yesterday rejected plans to allow development of a new generation of extra-safe nuclear reactors in the country, throwing into doubt the future of the German nuclear industry. The decision by the national executive of the SPD was immediately condemned by leaders of the ruling coalition as undermining the fundamental development prospects of the German economy.

It throws into doubt the year-long efforts to negotiate a cross-party "energy consensus" intended to provide a clear framework for the investment plans of the energy industry, including both domestic coal mining and nuclear power.

It also calls into question the long-term future of the German coal mining industry, which has survived so far on a mixture of direct subsidy paid by electricity consumers, and cross-subsidies from nuclear power paid by the electricity generators.

The SPD, which controls the governments of several key states in the federal republic where nuclear plants operate, also declared its determination to switch from reprocessing nuclear waste – in Britain and France – to direct disposal.

However, the party leadership has left open the question of how long the present generation of nuclear plants may be allowed to operate, thus giving Germany's electricity generators a chance to plan the gradual abandonment of nuclear energy. It also set no timescale for the switch from reprocessing to direct disposal, for which there are no sites currently available in Germany.

The SPD decision was announced yesterday after an extended meeting of the party's national executive rejected a compromise plan put forward by Mr Gerhard Schröder, the prime minister of the state of Lower Saxony.

The plan would have allowed a continuing "nuclear option" by sanctioning the construction of a prototype extra-safe nuclear reactor, designed to contain the risks of any future nuclear accident within the plant. Instead, the party leaders insisted on their existing policy of completely abandoning nuclear power.

The decision amounts to a severe blow to Germany's nuclear power plant manufacturers, led by Siemens KWU, but a compromise with which the two main electricity generators – RWE and Veba – can live. The third main power generator, the Munich-based Bayernwerk, is heavily committed to nuclear energy, and therefore strongly opposed to any non-nuclear option.

Without a cross-party compromise on energy, the power generators say they have no clear framework for their long-term power station planning. Government officials warned yesterday that the SPD decision now calls that energy consensus into doubt.

Mr Klaus Töpfer, the environment minister, who negotiated the compromise with Mr Schröder, expressed his regret at the SPD decision. "I cannot see how, under these circumstances, a energy consensus can still be achieved," he said. Negotiations scheduled for tonight will still go ahead, he said. "Failure of the talks would be a bitter setback for Germany's economic base, for which the SPD would be responsible."

NEWS IN BRIEF

Taxing times for Italian workers

SALARIED workers in Italy declare higher average earnings and pay more taxes than businessmen, writes Robert Graham in Rome. This trend, long suspected by the tax authorities, has been confirmed by finance ministry research.

It is based on 1990 returns of 28.6m Italians and was undertaken following the discovery by tax inspectors on random assessments that employers were on occasions declaring earnings three times less than that of their employees.

Analysis of returns also produced the extraordinary finding that almost 40 percent of the 340,000 businesses subject to corporation tax had avoided payment. This was because they either declared earnings below the taxable minimum or reported losses.

Sicilian bank chief quits

Mr Guido Savignone, chairman of the Banco di Sicilia, the island's leading financial institution, has resigned following sharp criticism of the management by the Italian Treasury, writes Robert Graham.

The attack on the failure of management to improve results after a shake-up two years ago represents a significant toughening in the authorities' attitudes towards financial instititutions in which the state has stakes. The Treasury has 14 per cent of Banco di Sicilia, the remainder being held by a foundation controlled by the regional government. The bank is understood to have just balanced its books in 1992 but risks a loss this year. Some L3,000bn (£1.24bn) of bad loans are reported.

Mielke jailed for Weimar crimes

A Berlin court yesterday sentenced Erick Mielke (85), former chief of the hated secret police in Communist East Germany, to six years in prison for two murders committed in the Weimar republic six decades ago, writes Ariane Genillard in Bonn. He also faces charges of abusing human rights during the Communist era, including the killing of people crossing the Berlin wall.

Georgian troops enter the town of Abasha yesterday, repulsing the forces of ousted President Zviad Gamsakhurdia from much of western Georgia Reuter

Mitsotakis quits as party chief

By Kerin Hope in Athens

MR Constantine Mitsotakis, the Greek prime minister defeated by the socialists in this month's general election, resigned yesterday as leader of the conservative New Democracy party.

Mr Mitsotakis, 75, is the first of Greece's veteran political leaders collectively dubbed the "dinosaurs" to make way for a younger successor.

Four former cabinet ministers have declared themselves candidates for the leadership. Mr Mitsotakis announced he would step down two weeks ago, when Mr Andreas Papandreou's Panhellenic Socialist Movement won the election by a larger margin than had been expected.

Frontrunner in the leadership contest is Mr Miltiades Evert, 54, who has opposed the conservatives' privatisation policy. The new party leader will be elected next week.

Russia ploughs a new furrow down on farm

By Gillian Tett, recently in Nizhny Novogorod, Russia

MR YEVGENY Mikheyev, director of the Niva farm near Nizhny Novogorod, flung open the door of a cowshed and declared: "We need reform to make this farm work! We have to get rid of the layabouts and the drunks!" It is a sentiment that could prove important, not just around Nizhny Novogorod, but across Russia.

Yesterday in Moscow, Mr Yegor Gaidar, first deputy prime minister, together with the International Finance Corporation, the World Bank's private sector arm, unveiled an agricultural reform programme designed to break up Russia's vast state system.

And as Niva is one of six farms to pilot the scheme, the fate of its reforms is likely to be a crucial test, as Russia tackles the sector of its economy most resistant to change.

Mr Gaidar said a policy to redistribute agricultural land should be introduced across Russia, supported by a decree – expected to be signed this week by President Boris Yeltsin –
revoking an effective ban on the sale of land, paving the way for mortgages, leasing and trading. The moratorium on sales or leases has been a key factor blocking real change.

The Russian government has introduced some reforms in the past two years, creating a new class of "private" farmers, and forcing the state farms to register as independent "companies", but the impact has been limited. Private farmers still control less than 4 per cent of registered farm land and the "reorganisation" of the state farms, which control more than 90 per cent of land, has largely been theoretical.

But though the need for market reforms is clear, the strong collective traditions of the Russian farmers have left the reformers facing a serious logistical problem: how do you break up huge farms in a manner that seems equitable, without creating unworkably small plots of land?

The solution that the IFC and Nizhny Novogorod leaders proposed to the villagers in Niva last weekend is based around two key concepts.

The first is a land and property certificate, an elegant piece of paper awarding each member of the farm a share of the land and property. Although the land is divided equally the property shares are graded by job and age.

The second key concept is an "auction", which determines which farmers get which pieces of land. Although the IFC hopes that in most cases this will be decided by mutual agreement, competing demands will be decided by an auction, using the property certificates to "bid" for disputed pieces of land.

Mr Viktor Khlystun, agriculture minister, stressed yesterday that there would be some limits on the sales. Outsiders - and by implication, foreigners – would not be allowed to buy land at the expense of local villagers, since "it would be wrong for a citizen to acquire land to hire labour", he said.

The type of farm which will emerge from this scheme is deliberately left unclear. The crucial aspect is that the scheme allows farmers to trade, sell or lease their certificates. Thus they can farm alone, join together in a collective, or even "sell" their land to a individual in the village.

As Mr Boris Nemtsov, reformist governor of Nizhny Novogorod, explains: "The essence of this is choice." Whether the villagers themselves want it is unclear. At the meeting in Niva to hand out certificates, opinions varied sharply. Although Mr Mikheyev is enthusiastic and some villagers are vowing to go it alone, others angrily supported the old system; many more seemed simply confused.

Ultimately, the scheme's success will depend on how many other farm directors like Mr Mikheyev can be found, and how far they can persuade the rest of the farmers to follow them.

Centrist party to mount challenge

By Leyla Boulton in Moscow

MR ARKADY VOLSKY, head of Russia's Union of Industrialists and Entrepreneurs, announced yesterday he would head a revived "centrist" alliance in the country's parliamentary elections.

The party, to be called Civic Union for Stability, Justice and Progress, represents a powerful new force to challenge the main government-sponsored alliance, Russia's Choice.

It is promising both to promote free enterprise and to increase the "manageability" of the state-owned economy.

Other candidates on the party's electoral list include leading industrialists such as Mr Nikolai Bekh, head of Kamaz, the country's biggest truck manufacturer.

According to the party's programme released yesterday, Russia's problems stem not from enemies within, but from "stupidity, incompetence and dishonesty" at the top.

For this reason, Mr Volsky said, it could co-operate with forces as varied as the Agrarian party, which represents the state farm lobby, and Mr Grigory Yevlinsky, the prominent economist, who wants more effective economic reform and a strong federal state.

He suggested that his group might even endorse Mr Viktor Chernomyrdin, the prime minister, who was being shunned by radicals in Russia's Choice.

Meanwhile, in a further attempt to distance himself from the cabinet, Mr Sergei Shakhrai, deputy prime minister and head of the Russian Unity and Accord party, said yesterday he was giving up his government salary. He also attacked the government's privatisation programme.

Mr Volsky's new party title, replacing the shorter Civic Union, is an attempt to shake off previous associations with disgraced former vice-president, Mr Alexander Rutskoi, one of the leaders of the recent parliamentary rebellion.

Tokyo's proposals will not necessarily clear way into public procurement market

Uphill task to win building orders

By Michiyo Nakamoto in Tokyo

THE Japanese government's proposals to open up the construction market to foreign companies may appease US government officials and help to avert sanctions. But it is likely to take more than the formal blessings of Japanese officials for foreign companies to win a greater share of Japan's public procurement construction market.

"If a foreign company really wants to participate in the market they will benefit from the new proposals," says Mr Akira Rokuhara, executive director of the Research Institute of Construction and Economy, a private institute. He believes they will be able to win contracts in these areas.

For a foreign construction company keen to do business as a general contractor in Japan, recruiting the large numbers of experts they would need to undertake general contracting work is no easy task.

Such experts are only available at the established Japanese construction companies and without such a skilled workforce with knowledge of the Japanese industry, foreign companies are likely to find it extremely difficult to carry out general contracting work.

Meanwhile, the options of acquiring a Japanese company or forming a joint venture with one, providing foreign companies with access to a skilled workforce, are also limited, says Mr Peter Hedges, chief representative of Trafalgar House Corporate Development Tokyo.

"There is a natural inertia and unwillingness to change; unless these companies are being pushed hard by price and political pressure," they are generally unwilling to enter joint ventures meaningful for the foreign partner, he points out.

If the experience of foreign companies in other Japanese markets are any guide, it will also take foreign companies considerable time to build up a reputation for reliability which, in Japan, often counts for more than price competitiveness in winning business.

"Since we use taxpayers' money we must be sure the company is reliable," an official at the Ministry of Construction explains, in defending the Japanese system of awarding contracts to designated bidders. "If bids are opened to any company, the danger exists that the work will be of bad quality. There is a trade-off between transparency and reliability."

Mr Rokuhara points out that "in construction it is not possible easily to compare the end products, as it is in electronics. So a lot depends on whether or not a company is reliable."

But while the government's new guidelines call for "objective, transparent and publicly stated criteria" in determining a company's reliability, in Japan reliability is more often judged by local reputation than objective standards.

US computer companies, for example, in spite of pre-eminence in world markets, face an uphill struggle in the Japanese public procurement market. Japan's construction market, like many others the target of US criticism, is built on a network of relationships developed over a long time.

South Africa and Japan in business deals

By Philip Gawith in Johannesburg

TWO business deals were unveiled yesterday between South Africa and Japan, indicating closer ties between the two in a post-sanctions environment.

A joint venture was unveiled between two of the world's leading ferrochrome producers, Samancor and Nippon Denko – the first large investment by a Japanese company since the lifting of sanctions – while the fuel and chemicals group Sasol and Mitsui have formed a marketing and distribution alliance for the handling of Sasol Chemical's hexene and pentene in Japan and South Korea.

Sasol will supplement the current hexene production to meet the growing demand in these markets and Mitsui will handle the marketing and distribution.

Pentene is to be supplied by Sasol for production of polyethylene plastics. Mitsui will work with a Japanese supplier on developing a market for this product and other speciality chemical products in Japan and Korea.

Samancor and Nippon Denko, meanwhile, have formed a joint venture, NST Ferrochrome, that produces charge chrome for the Japanese market at a 60,000 tonne per annum furnace located within Samancor's Tubatse ferrochrome plant. NST uses the Tubatse infrastructure, and chrome from Samancor's nearby mine, under a long-term agreement.

Samancor executives said the fact that Nippon Denko had ceased production of charge chrome at its Hoporiku plant was a measure of their commitment to the new deal.

Mr Kazuzo Kobayashi, president of Nippon Denko, said collaboration with Samancor, who had the world's largest mineral and production resources in its field, would ensure a stable and competitive supply of Ferrochrome to Nippon Steel and other major Japanese stainless steel producers.

Another brewer to join China beer rush

By Emiko Terazono in Tokyo

KIRIN Brewery, Japan's largest beer maker, is planning to form a beer production joint venture in China with a Chinese beer-maker based in Dalian and a Hong Kong trading company.

The move follows a rush of leading foreign beer companies into China's beer market. Anheuser-Busch, the US producer of Budweiser, bought 5 per cent of Tsingtao Beer last June, while Carlsberg of Denmark is operating a local production line. Suntory, another Japanese beverage maker, invested in a joint venture in Lianyungang in 1984.

China produces an annual 15m kilolitres of beer, and is the world's third largest beer market following the US and Germany.

Kirin said it was still negotiating with Dalian Bohai Brewery and Van Yu Trading of Hong Kong, but it planned to invest $27m in beer lines with production capacity of up to 60,000 kilolitres.

Kirin will also provide quality control and other production technology.

US demands could hurt rival exporters

By Michiyo Nakamoto

THE US is pressing Japan to make firm commitments to boost imports of US goods, potentially discriminating against European and other exporters to Japan.

The US request, in the form of a written proposal, was given to the Japanese government last week in bilateral trade talks. It calls for the agreement between the two countries of what amounts to targets in increasing purchases of US cars and car parts.

The nature of the proposal calls into question persistent US claims that it is neither setting targets, nor pressing US interests at the expense of other countries, as it seeks to prise open Japan's market.

The proposals made by each side in the talks have not been revealed publicly. The US has indicated that it was only trying to pursuade Japan to bring the level of its market openness to the standard of other G7 countries.

However, while the US proposal does not use the word target, it uses the same wording as the bilateral semiconductor arrangement which forced Japan to meet the market share for foreign semiconductor manufacturers targetted by the agreement.

Furthermore, while the US also calls for agreeing effective targets for the sale of non-Japanese motor vehicles and vehicle parts, by attempting to set a separate target for US and non-US products, the US proposal as it stands in effect puts pressure on Japanese companies to purchase US products rather than those of other non-Japanese motor parts makers, including European companies.

The distinction between non-Japanese motor and motor parts makers in the US proposal also discriminates against sales by foreign car makers with Japanese capital. This would include Rover, the UK company in which Honda has a stake, as well as Japanese transplants in the UK.

Japan has repeatedly opposed targets for foreign product sales on the grounds this would lead to managed trade.

Europe to press US for Gatt concession

By David Gardner in Luxembourg

THE European Community yesterday warned the US that it must improve its offer on market access if there is to be any chance of meeting the December 15 deadline for resolving the Uruguay Round talks on world trade reform.

Sir Leon Brittan, EC chief trade negotiator, after briefing EC foreign ministers on the talks, said the deadline was "within our reach, but not yet within our grasp".

Sir Leon will give a written account of the talks when EC foreign ministers meet in Brussels on November 8 – a meeting at which France and its allies are expected to press their misgivings about the Uruguay Round. The ministers had shown "overwhelming support for the view that the American response on market access. . . was inadequate," he said.

At July's Tokyo summit of the Group of Seven industrial nations, the Quad group – the US, Japan, Canada and the EC – agreed to cut "peak tariffs" of over 15 per cent by half. The EC has lodged an "illustrative offer" along these lines at the Geneva talks, and is challenging the US and Japan to "respond to what we are doing," as Sir Leon put it.

The commissioner said that the EC had 101 peak tariffs covering Ecu1.1bn (£855m) in imports, whereas the US had 683 covering Ecu17.3bn, and Japan 495 covering Ecu2.7bn. "It is of course the high tariffs which are the real obstacle" on market access, he said.

On the Blair House farm trade agreement between the EC and the US, to which the EC, driven by French threats to scupper the Uruguay Round, is seeking additions, Sir Leon declared: "It is not for the French to move on Blair House; the ball is in the American court."

He implied that the US refusal to discuss Blair House or farm trade was linked to Washington's current absorption in getting the North American Free Trade Agreement with Canada and Mexico through Congress on November 17.

Sir Leon nevertheless signalled further progress on talks with the US for a special regime for audio-visual, cinema and broadcasting trade to protect European cultural interests, and said other negotiations with the US were continuing quietly.

Calls for early end to trade talks

By Frances Williams in Geneva

SUPPORT for a swift and successful conclusion to the Uruguay Round of trade liberalisation talks came yesterday from consumer organisations and the Czech Republic, amid rising anxiety in Geneva over slippage in the negotiating timetable.

Mr Peter Sutherland, Gatt director-general, has called a meeting of the top-level Trade Negotiations Committee for November 1, where he is likely to urge renewed efforts to thrash out a tariff-cutting deal.

This month's failure by the US, EC, Japan and Canada to agree on lower trade barriers for farm and industrial goods means a comprehensive market access package for all 116 participants cannot be completed by November 15 as had been hoped.

But Mr Sutherland is still pressing for most of the package to be settled by then, minimising the number of unresolved issues for the "end-game" in the final month before the Round's December 15 deadline.

The International Organisation of Consumers Unions yesterday told Mr Sutherland that while the package on the table was not perfect, it promised a big improvement, and was "incomparably better" than the chaos that would follow a breakdown in the talks.

IOCU, which represents 180 consumer organisations in 70 countries, urged Round negotiators to ignore the calls of protectionists and put the interests of consumers first. Mr James Firebrace, IOCU director-general, said all consumers suffered because of protectionism.

Mr Vladimir Dlouhy, trade minister of the Czech Republic, who also saw Mr Sutherland yesterday, said a successful Uruguay Round conclusion was essential to combat protectionist pressures and provide the increased access to foreign markets his country needed for future growth.

Poland, Hungary and Slovakia shared this view, he added. The casualties of a Uruguay Round failure would be, in the short term, trade, in the medium term, world economic growth, and long term, perhaps global political stability. If strong regionalism and protectionist barriers were allowed to flourish, "you could end up with a war, after a decade, in different parts of the world".

NEWS: CANADIAN ELECTIONS

Tradition of give and take is swept away

ONLY a full-blooded revolution could have matched the upheaval in Canadian politics caused by the general election on Monday.

Canada's diverse cultures and regions have until now accommodated themselves within two or three national parties. The Liberals, the Progressive Conservatives and most recently the New Democrats have deep differences on economic and social policies. But they have shared a commitment to a united and stable country where each linguistic group and region gives a little and gets a little.

Bernard Simon on a virtual revolution in Canadian politics

Liberal party leader Jean Chrétien is mobbed by party supporters yesterday *Associated Press*

That tradition will be severely tested in the new parliament. Only the Liberals, who swept to victory on Monday with 178 out of 295 seats, remain as a force dedicated to keeping the country in one piece through compromise rather than confrontation.

The Conservatives and the New Democrats suffered such devastating setbacks that they have lost their status as official parties, losing some of their parliamentary privileges.

Despite winning about one-seventh of the popular vote, the Tories' presence in the House of Commons has been slashed from 157 to two. The left-leaning NDP's representation has shrunk from 44 to 8.

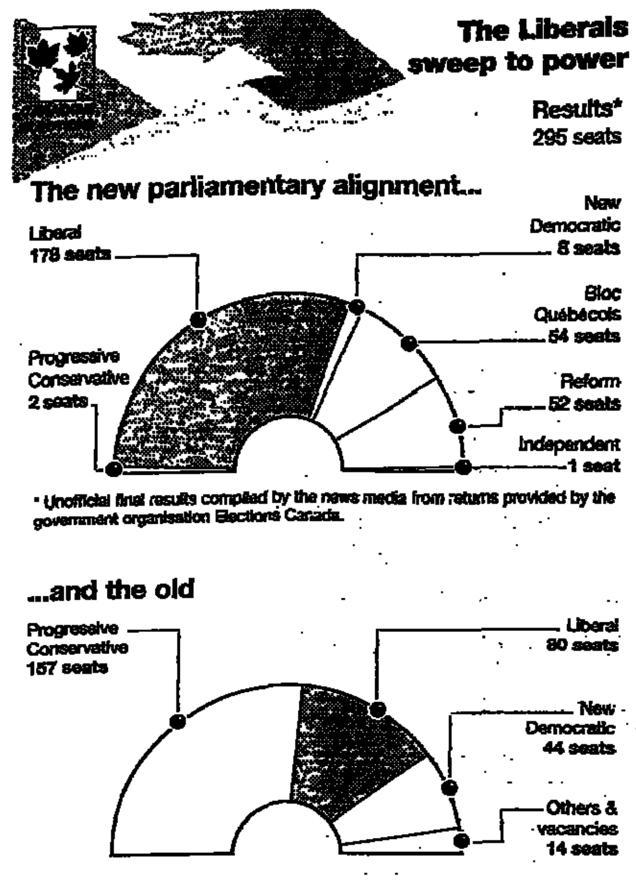
In their place will be two unashamedly regional groups: the Bloc Québécois, which will form the official opposition, and the Reform party, the right-of-centre group based in western Canada.

The Bloc's leader, Mr Lucien Bouchard, has given notice that he will use its substantial representation in Ottawa to further the cause of Quebec independence. In particular, the Bloc is likely to try to build support for its provincial wing, the Parti Québécois, which faces a provincial election towards the end of next year. The separatists have promised to hold an independence referendum within a year, if the PQ comes to office.

The 53 Reform party MPs, almost all of them from Alberta and British Columbia, could be among Mr Bouchard's most effective weapons in his struggle for independence.

While Reform leader Mr Preston Manning insists that he wants to keep Canada in one piece, his conditions for "renewing the federation" – in particular his insistence that Quebec be given exactly the same constitutional treatment as the other nine provinces – are totally unacceptable to Quebec.

Reform also opposes official bilingualism. Whatever the party's official position, many of its supporters would shed no tears if Quebec went its own way.



* Unofficial final results compiled by the news media from returns provided by the government organisation Elections Canada.

Containing these centrifugal forces will be one of the biggest challenges facing the new Liberal government under Mr Jean Chrétien. However, few Canadian politicians are better suited to the task. Mr Chrétien, aged 59, is a Québécois but believes passionately in a united Canada.

He is a veteran of almost every constitutional debate of the past three decades. Having entered parliament for the first time 30 years ago, Mr Chrétien held almost every major portfolio under former prime minister Pierre Trudeau.

Mr Chrétien has been widely reviled in Quebec in recent years for, among other things, opposing the 1987 Meech Lake accord, which would have given the province significant extra powers. But his ability to make a comeback was demonstrated by his unexpectedly large victory on Monday in his home constituency of Saint-Maurice in the eastern part of the province.

There were other crumbs of consolation for federalists from the election result. One was that the Liberal landslide stretched across the country. The Liberals won seats in all 10 provinces, and Mr Chrétien's cabinet is likely to reflect that diversity.

Furthermore, one of the two Conservatives to retain their seats was Mr Jean Charest, the youthful deputy prime minister who was beaten by Ms Kim Campbell last June for the party leadership.

Mr Charest is a bilingual and personable Québécois who demonstrated during the leadership campaign that he also has a substantial following outside the province. It would be surprising if he did not play a leading role in the coming constitutional wrangle.

Reform and BQ will be sending a large contingent of neophyte MPs to Ottawa. Reform's unity, in particular, will be tested by the contrast between Mr Manning's autocratic style, and the party platform's promise of looser parliamentary discipline and greater accountability by MPs to their constituents.

However, the two parties have yet to prove that they are more than short-lived wonders likely to end up as fractious protest groups. Both owe much of their support to voters' deep-rooted desire for change after the tough years of Tory rule, rather than loyalty to their respective platforms. Their support may drift away once the economy picks up.

Quebec 'headed towards freedom'

By Robert Gibbens in Montreal

MR Lucien Bouchard, leader of the separatist Bloc Québécois, was in no doubt as to the import of his party's strong showing in Monday's poll. "This election is a pivotal point in the process towards sovereignty. Independence is the only remaining option after Canadians twice failed to amend the constitution to accommodate Quebec nationalism," he said.

The new parliament would reflect the real nature of Canada. "There are two countries in Canada. Starting today these two countries must begin talking together more frankly right in parliament."

A former member of Conservative Prime Minister Brian Mulroney's cabinet, Mr Bouchard walked out in 1990 over the Meech Lake constitutional accord, on the grounds that Quebec did not get enough out of the plan.

In the three years since he has built the BQ into the most popular party in the province and the legitimate voice in parliament of most of its French-speaking majority.

Yet despite the BQ's impressive sweep of 54 of the province's 75 seats, federalists in Quebec have far from given up the fight. Mr Bernard Roy, former chief of Cabinet for Premier Brian Mulroney and head of the Montreal Chamber of Commerce, said: "English Canada will never tolerate a separatist party in the Commons forming the official Opposition." How can the Bloc represent all Canada? The Bloc got two-thirds of the Quebec seats with only half the vote. We've see primarily a protest vote."

Mr Bouchard was careful to preserve a conciliatory tone when he addressed party workers in his campaign headquarters in Alma, Quebec. "We're not out to destroy federal institutions and Canada, but to win a better deal for Quebec," he said in English.

Liberal party softens its approach to freer trade

By Bernard Simon

CANADA'S Liberal party has substantially softened its stand on North American free trade since the last general election in 1988. During that election, which they lost, the Liberals made abrogation of the US-Canada free trade pact a key plank of their policy platform.

By this year's campaign, however, the Liberals had pledged only to seek renegotiation of some elements of the 1989 accord, the FTA, and the North American Free Trade Agreement, which includes Mexico. "Abrogating trade agreements should only be a last resort if satisfactory changes cannot be negotiated," the Liberals' campaign platform said.

Nafta is due to come into force on January 1 1994. Diplomats and political observers predict that, with a little help from President Bill Clinton, the US Congress and the Uruguay Round of multilateral trade talks, the Liberals will eventually sign on to Nafta in time to meet the implementation date. The outgoing Progressive Conservative government pushed Nafta enabling legislation through Parliament last summer. Only formal promulgation is required to put it into law.

The Liberals pledged in the campaign to seek four specific "improvements" to the FTA and Nafta: a subsidies code, an anti-dumping code, a more effective dispute settlement mechanism, and the same protection for Canadian energy producers as is envisaged for Mexico.

Some Liberal concerns would be addressed if the Uruguay Round is successfully wrapped up this year. The previous Conservative government tried but failed to negotiate a subsidies package in the 1989 FTA. Anti-Nafta pressure on Mr Chrétien would also be eased if the US Congress ratifies Nafta. Votes are scheduled in the Senate and the House of Representatives next month.

On other issues, diplomats predict that Ottawa and Washington will find a face-saving formula which will enable Mr Chrétien to point out that his concerns are being met, and allow him to proceed with implementation of Nafta. A visit to Washington will be among the new prime minister's early priorities.

President Clinton said yesterday he did not expect the election to have an impact on Nafta.

The results of the election should also make it easier for Mr Chrétien to press ahead with Nafta. The left-leaning New Democratic Party, the only parliamentary group unambiguously opposed to Nafta, ended up with only eight seats in the House of Commons. The two regional parties, the Bloc Québécois and the Reform party, which will form the bulk of the opposition, generally favour the free trade agreements.

Even within the Liberal party itself, support for free trade is more vocal and opposition more muted than it was five years ago.

NEWS: CANADIAN ELECTIONS

Bank moves in support of Canadian $

By Our Foreign and Financial staff

THE Bank of Canada intervened to support the Canadian dollar yesterday as it fell sharply following the results of the general election and worries about a resurgence of separatism.

The central bank was seen selling US dollars and buying a volatile Canadian currency as the latter initially fell more than 2 cents against its US counterpart to hit a low of C$1.326.

MARKET REACTION

The Canadian dollar had weakened on electoral uncertainty but picked up just before the result on the belief that a strong Liberal government was better than a weak conservative one.

The Canadian currency steadied later to close in London at C$1.32 to the US dollar. In contrast Toronto equities remained generally unmoved, with the TSE composite index up 8.15 at 4,163.41 by midday.

On Wall Street, economists were surprised by the extent of the Conservative defeat. "The joke around here is that it was the greatest defeat of any standing government in the post-Babylonian era," said Mr Bruce Kasman, senior international economist with Morgan Stanley in New York.

"This wasn't just a defeat for the Conservatives," said another analyst. "It was a total disappearance." But opinions differed on the impact of the Liberal victory on Canadian financial markets, mainly because of uncertainty about the new Liberal government's economy policy.

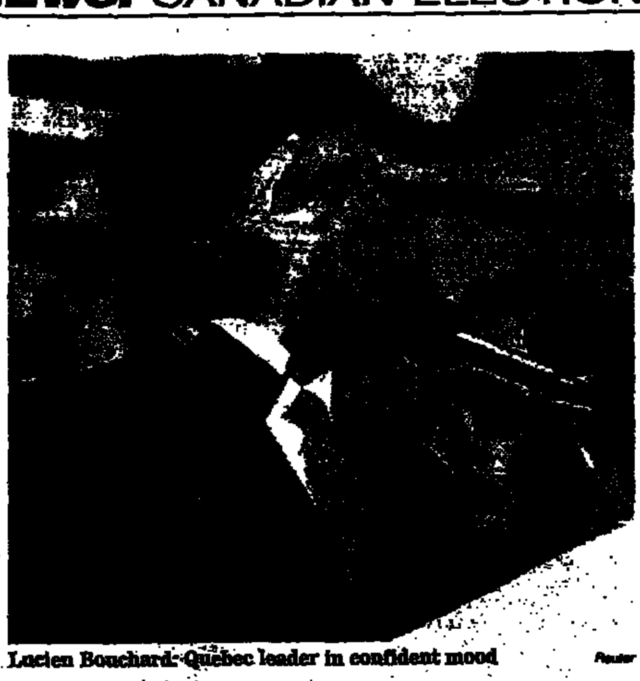
Mr William Sterling, international economist with Merrill Lynch, said that if Liberal leader Mr Jean Chrétien "goes for growth" with some form of fiscal stimulus, Canadian bond and currency markets could suffer because of the implications such a policy would have for the C$35.5bn federal deficit.

Economists say a lot depends on whether ratings agencies downgrade Canadian government debt at the first sign of an expansionary fiscal policy. "The view in the markets is that the rating agencies are going to have quite a bit of influence on how much latitude the incoming government has," said Mr Sterling.

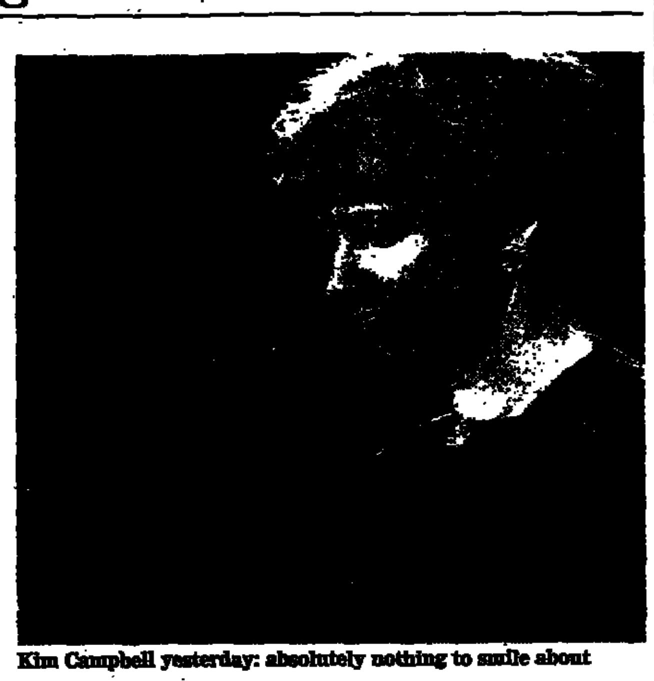
As for US investors' view of Canadian markets, Mr Kasman said: "Investors here like the high yields relative to the US, but there is concern about the role of the Bloc Québécois in parliament, and concern about regional framgmentation of the Canadian political scene."

Mr Kasman believes the main risk in terms of financial markets is a declining Canadian dollar. "Investors know the Bank of Canada is already in the mode of trying to ease interest rates, and is willing to accept the price."

That price is a further depreciation in the Canadian dollar.



Lucien Bouchard: Quebec leader in confident mood Reuter



Kim Campbell yesterday: absolutely nothing to smile about

Prospects rise for steady growth

There have been productivity improvements, writes Bernard Simon

CANADA'S Liberal party inherits a domestic economy in vastly better shape than the one it left when it was last in office in the early 1980s.

After more than two years of severe recession, a gradual economic recovery has begun. The Conference Board of Canada recently predicted GDP will rise by 2.4 per cent in real terms this year, accelerating to 3 per cent growth in 1994 and 3.5 per cent in 1995.

Inflation is below 2 per cent, well ahead of the targets set by the outgoing Progressive Conservative government two years ago. Meanwhile interest rates have tumbled to their lowest levels in two decades.

While the recession and free trade with the US have brought pain to many Canadian businesses and their workers, they have also encouraged significant improvements in productivity.

Mr William Macdonald, Toronto lawyer and economic consultant, says Canada is 4-5 years into a 12-year restructuring which, if successful, could give it one of the best combinations in the industrial world of mutually reinforcing monetary, fiscal, exchange rate and trade policies.

THE ECONOMY

The Business Council on National Issues, which represents 150 chief executives of the country's biggest companies, said yesterday that its judgment of the Liberals would depend on their handling of four issues: government spending, free trade with the US and Mexico, tax reform and monetary policy.

All major parties promised in the election campaign to contain or cut the federal government's C$35.5bn (£17.4bn) budget deficit.

The Liberals said they would bring the deficit down to 3 per cent of GDP, from its present level of 5.2 per cent. However, economists are nervous that with two regional parties on opposition benches and the threat of Quebec secession, the Liberals will be hard-pressed to resist demands to loosen the purse-strings.

One of the most crucial decisions facing the new government is whether to reappoint Mr John Crow, Bank of Canada governor, to a second seven-year term. Mr Crow's first term expires early next year.

Mr Jean Chrétien, Liberal leader, suggested before the campaign began that Mr Crow, whom many Canadians blame for the recent tough times, would have to go, but party officials have showed an appreciation recently of Mr Crow's value in bolstering foreign investor confidence.

The Liberals are more pragmatic and business-oriented than they were under Mr Pierre Trudeau in the 1970s and early 80s. But the party also still contains an interventionist and nationalist wing.

The degree to which the new government will be willing to accommodate business's – and especially foreign investors' – preferences in economic policy will become clear when it tables its first budget and decides on Mr Crow's future.

Hopes fade for UK-Italian helicopter purchase

By Daniel Green

HOPES were fading yesterday in the UK and Canadian aerospace industries over the fate of a C$5.8bn (£2.85bn) Canadian order for helicopters from a UK-Italian consortium.

Mr Jean Chrétien, the leader of the triumphant Liberal party, promised during his campaign that an incoming Liberal government's first acts would include cancelling the order for the EH-101 helicopters, which was placed in October 1992 by the outgoing Progressive Conservative government.

Westland, the UK partner in the EH101, said yesterday that it would "wait and see" how Mr Chrétien acted. But it is clearly bracing itself for the loss of the order, which would cut £400m off its £1.9bn order book.

The original order was for 35 sea patrol helicopters and 15 search and rescue variants. However, a cut to 43 in total was mooted as part of the government's budget reduction programme.

AEROSPACE

The main contractors for the helicopter are EH Industries, a joint venture between the UK's Westland Group and Agusta of Italy, and Paramax, a Canadian company controlled by Unisys of the US.

EH Industries would have supplied the basic aircraft, while on-board systems would be provided by Paramax.

Opponents of the deal argue that such a large order for essentially defence aircraft used, for example, in submarine hunting, was inappropriate to a post-cold war defence policy.

The deal's supporters argue that the Canadian forces urgently need to replace their ageing fleet of Sea King and Labrador helicopters.

NEWS: THE AMERICAS

Clinton seeks $10bn in cuts

By Jurek Martin in Washington

PRESIDENT Bill Clinton sent to Congress yesterday an additional $10bn in spending cuts over the next five years and unveiled a simplified government procurement programme that officials said could save as much as $22.5bn over the same period.

Both proposals and their claimed economies are likely to meet stiff challenges in Congress. A bipartisan group under Congressman Tim Penny, the Minnesota Democrat, is pressing for an extra $100bn spending cuts, while Mr Leon Panetta, budget director, conceded congressional experts believed the changes in purchasing rules might yield only $3bn-$5bn.

Under the Clinton proposal, $1.5bn would be saved by cutting existing programmes, such as ending federal subsidies for wool, mohair and honey production. The rest would come from assorted savings across government, most notably in the Department of Agriculture, brought about under the auspices of the National Performance Review directed by Vice-President Al Gore.

The first part of yesterday's package is incomplete, officials said, because Congress has yet to finalise four appropriations bills for the current fiscal year, which began this month. Further cuts of $1bn-$2bn will be sent to Congress when the bills have passed.

Mr Clinton sounded defensive on the size of the spending cuts, saying: "If they aren't passed, I'll come back with more." But he waxed more eloquent on efficiency savings, claiming they could free funds for greater law and narcotics enforcement.

He signed an executive order under which federal agencies will begin accepting contract bids by computer, with the ultimate goal that this will apply to all the estimated 20m contracts worth a total $200bn the government signs each year. It is also intended that all federal salary and pension payments be made by electronic transfer.

Changed purchasing rules would also increase to $100,000 from $25,000 the size of contracts that can awarded without extensive auditing procedures. This, the president claimed, would open up many opportunities to small businesses.

But the main target was simplifying defence procurement, with the aim of obliging the military to buy supplies off-the-shelf at best prices.

EC joins US in push on services

By George Graham in Washington

THE European Community is to join the US push to make Asian and Latin American countries open their financial services markets more widely as the Uruguay Round of trade liberalisation talks comes to a climax.

Mr Lawrence Summers, the US Treasury undersecretary in charge of international affairs, said yesterday the EC had agreed to follow the US example by sending high-level officials to several emerging markets in an effort to "help unblock the Geneva logjam."

Mr Summers said the Clinton administration's decision to back legislation authorising restrictions on the expansion of banks and financial service companies from countries which do not allow equal access to US businesses would serve as a lever to secure additional concessions in the sector before the conclusion of the Uruguay round.

"The offers from many of the participants in the negotiations are simply not good enough," he said.

The pertinent fears of 'apartheid's children'

Philip Gawith on how a conservative alliance has highlighted the key issue facing South Africa's constitution writers

IT WAS no roll call of honour. Indeed, some commentators called it an unholy alliance of apartheid's children, the five leaders of South Africa's new conservative Freedom Alliance facing the press together for the first time.

They posed for their team photo earlier this month in a nondescript Pretoria hotel, in front the three black leaders, chief minister Mangosuthu Buthelezi of Kwazulu, Brigadier Oupa Gqozo of the Ciskei, President Lucas Mangope of Bophuthatswana, and behind them the two Afrikaner leaders, Mr Ferdie Hartzenberg, leader of the Conservative Party, and General Constand Viljoen of the Afrikaner Volksfront. Many wrote it off disparagingly as stricken at birth by internally contradictory policies.

When, however, only a few days after the alliance's formation, President F W de Klerk told the Cape congress of the National party that a referendum might be necessary to break an impending constitutional impasse, this strange union began to appear in a different light.

Taken together the two events have brought into focus the key constitutional conundrum facing South Africa: how to reconcile the power of the majority with the fears of minorities.

Viljoen and Hartzenberg with, left to right, Mangope, Gqozo and Buthelezi: they may command as much support as the National party Associated Press

This issue has always been at the heart of the constitutional debate. What is now clearer than ever is that, despite nearly two years of negotiations, it remains fundamentally unresolved.

The most obvious symptom of this is the alliance itself, representing a considerable body of conservative opinion, which stands outside and wholly opposed to the Multi-Party Negotiating Forum (MPNF) where the country's constitutional talks are being held.

As President de Klerk said, the negotiating process has become bogged down and needs to be revived. "It cannot continue like this. Our country cannot afford that negotiations lose their momentum. There is no question of turning around."

What recent events have made clear is that there are only two real options. Either the government and the ANC, the dominant players at the constitutional talks, are going to have to make significant concessions in this next few weeks on the issue of a more federal system – which the Freedom Alliance has made a central plank of its demands – to bring the alliance back on board; or the government and the ANC are going to press ahead without them.

The problem with the latter course is that it would require a referendum, in which the MPNF obtained commanding public support, to legitimise it.

The ANC, after initially making supportive noises, has said it does not support a referendum, apparently believing that for the ANC and Mr de Klerk's NP to be seen supporting the same issue would be to lend the NP undeserved credibility in the run-up to elections.

How to keep negotiations moving, preferably with, but possibly without, the alliance is sure to be the main subject of discussion at the two-day retreat where government and ANC negotiators are currently locked away.

To date the government has laid more stress on trying to accommodate the alliance, while the ANC has been uncompromising in its commitment to honouring existing timetables, in terms of which all outstanding constitutional issues must be resolved by November 5. Mr Cyril Ramaphosa, ANC secretary general, said on Monday that if the Freedom Alliance was not on board by then, the boat would leave without them.

Those commentators who believe the current draft constitution is still far from federal, and who take the disruptive potential of the alliance more seriously, take a more conciliatory line.

Among them is Professor Lawrence Schlemmer of the Human Sciences Research Council and South Africa's pre-eminent pollster. He says the Freedom Alliance probably now enjoys about the same level of support as the NP, giving it a claim as the country's second-largest political grouping after the ANC.

Recent polling data suggests the ANC would win 50-67 per cent of a popular vote, while the NP is in the 12-17 per cent range.

Prof Schlemmer believes the Freedom Alliance needs to be taken seriously because its decision to negotiate as a single bloc gives it considerable leverage compared with when most or all of its constituents were negotiating on an individual basis and were susceptible to being played off against each other.

He says it is a much more formidable grouping than in its earlier incarnations when it was little more than a loose assortment of parties that had something to lose. Now, argues Professor Schlemmer, South Africa has seen the emergence of a "minority-based political position".

He disagrees with those who say the alliance is an artificial construct. "It has a very, very coherent position. It is the minority rights position."

There are many who caution against premature efforts to bludgeon the alliance into line through a referendum. The newspaper Business Day argued recently: "A referendum majority, however large, will not shield the winners from the violence that an exclusive settlement will bring."

The same, of course, applies for efforts to proceed without the Alliance. There is considerable support for the view that the current draft constitution is not adequately federal in its nature. Professor Mervyn Frost of Natal University argues that the various pretexts – minimum standards, maintenance of economic unity, unreasonableness – whereby the central state can interfere in the affairs of a region are inimical to federalism.

Political analysts are having increasingly to resort to the poker analogy with the ANC and Freedom Alliance seemingly determined to go right down to the wire before revealing whether they are prepared to make any compromises.

NEWS IN BRIEF

ADB approves $76.5m loan to Vietnam

THE Asian Development Bank yesterday approved a $76.5m (£50.6m) soft loan for Vietnam, the ADB's first credit to that country since the end of the Vietnam war in 1975, writes Victor Mallet from Bangkok.

The ADB's announcement was the latest move by a multilateral institution to resume aid to Vietnam. The US decided in July to stop opposing international assistance for Hanoi, allowing the IMF, the World Bank and the ADB to finance the country's economic reform programme and help repair its infrastructure.

The ADB's first loan, interest-free and repayable over 40 years with a 10-year grace period, is to finance irrigation projects. The bank has granted a further $1.8m for technical assistance to help develop water resources.

Thai workers urged to quit

The US has asked Thailand to withdraw some 200 migrant workers from two Libyan building projects because the sites are bunkers which could be used to make chemical weapons, US officials said yesterday, writes Victor Mallet.

They named three private Thai companies said to be involved in the design, construction and supply of skilled labour for two underground sites at Tarhuna. "We believe they are chemical weapons factories," said one US official.

Earlier this month, Thai police arrested Mr Viroj Sakulmutita, owner of a company called W&M in the northern town of Chiang Mai, accusing him of illegally sending Thai workers to Libya. Mr Viroj, who denied the charge, saying he was building bomb shelters, was released on bail.

Unesco aims at resources shift

Unesco Director-General Federico Mayor yesterday announced plans to move resources from staff to programmes, Reuter reports from Paris. About $120m of the proposed $455m budget would go to field units, raising their share of operational funds from 38.2 to 45 per cent, he told the organisation's general conference.

Basic education, Unesco's top priority, was to get nearly 39 per cent of the budget ($1m more than in the previous two-year period). Science would get 22.5 per cent, with culture winning 17.2 per cent, communication 11.2 per cent and social science 10.3 per cent.

Hijackers deny political link

Gunmen holding 28 hostages on a Nigeria Airways aircraft in Niger have denied any links with Nigerian politician Moshood Abiola, Mr Abdoulaye Souley, Niger's transport minister, said yesterday, Reuter reports from Niamey.

First reports when the Airbus A310 was seized on Monday said the hijackers wanted Mr Abiola appointed president, four months after the cancellation of Nigerian elections he was set to win. But Mr Souley said the gunmen claimed Mr Abiola was as much a pillager of the Nigerian people as former military leader Ibrahim Babangida, who turned over power in August to a military-appointed civilian government.

Japan takes the lead in resumption of aid to Kenya

By Leslie Crawford in Nairobi

JAPAN yesterday became the first donor government to resume financial assistance to Kenya following an international freeze on aid of almost two years.

The Japanese embassy in Nairobi said the Y8.25bn ($77.83m) loan was for export development and balance of payments support.

The resumption of Japanese aid comes at a critical time for Kenya, which is expected to present its case for financial rehabilitation at a consultative group meeting of international donors in Paris next month.

World Bank and International Monetary Fund teams are currently in Nairobi assessing the government's commitment to reform. But negotiations on a medium-term economic programme, acceptable to the Kenyan government and the IMF, are reportedly bogged down on the issue of para-statal reform and corruption in the state sector.

The donor community suspended balance of payments support in November 1991, citing President Daniel arap Moi government's poor record on human rights, political freedom and economic mismanagement.

Japan's decision will be seen by Kenya as a reward for its progress with reforms but it has placed Japan, Kenya's largest creditor, in an awkward position in relation to the rest of the donor community.

Mr Masaki Koito, economic attache at the Japanese embassy, said the export development credit, co-financed with the World Bank, had been negotiated before the 1991 aid freeze. The World Bank had disbursed its $85m share of the loan earlier this year, and Japan was doing so now because Kenya had met all the "technical conditions" of the programme, he said.

"This does not mean that we are fully satisfied with Kenya's economic progress," the Japanese diplomat added. "Kenya still has to tackle considerable reforms."

Burundi coup appears to falter

By Leslie Crawford in Nairobi

A MILITARY coup in Burundi appeared to be faltering yesterday after army generals asked the prime minister to come out of hiding and form a new civilian government.

But there were doubts about the army's true intentions and the surviving members of the former government stayed in their refuge in the French embassy in Bujumbura.

Speaking from the French embassy, Ms Sylvie Kinigi, the prime minister, called on Burundi's military to return to barracks. Her address, broadcast on state radio, announced an end to the dusk-to-dawn curfew. She said the borders and international airport would re-open soon.

Army generals on Monday asked her to form a new government, blaming the coup and the assassination of President Melchior Ndadaye on a handful of mutinous soldiers. Mr Ndadaye, Burundi's first democratically elected leader, had assumed office only three months earlier.

But Burundi diplomats abroad said they had reason to believe that those who were now disowning the coup had in fact been its architects.

"Their about-turn could be a trap," said Mr Joseph Bangurambona, Burundi's ambassador to Nairobi, "We have no guarantees that if civilian leaders came out from hiding, the killings would not begin again."

Mr Banguranbona said the coup had unleashed a wave of ethnic killings in the countryside. The Hutus, Burundi's most numerous tribe, were reported to be killing Tutsis in revenge for the murder of President Ndadaye, who was a Hutu. Tutsi soldiers were also massacring Hutu villagers.

Israel is urged to speed up release of Palestinians

By Our Middle East Staff

PALESTINIAN negotiators yesterday pressed Israel for a more rapid and extensive release of prisoners as the two sides resumed peace talks at the Egyptian resort of Taba.

The negotiations centre on the transfer of limited powers to the Palestinians in the Gaza Strip and the West Bank town of Jericho and are due to be completed by mid December.

The Palestinians, while welcoming this week's release of 617 prisoners, stressed that many more of the estimated 11,000 still held had to be freed in order to win greater popular support. They also insisted that prisoners from factions other than Fatah, headed by Mr Yassir Arafat, had to be included.

"We are not happy," Palestinian delegate Ziad Abu Ziad told reporters in Taba. "We are trying to make peace between Palestinians and Israelis – not between Israel and a faction of the Palestine Liberation Organisation. If peace has a broader base it will have wider support."

Israel has so far refused to free prisoners belonging to radical Islamic groups, such as Hamas and Islamic Jihad.

Mr Yitzhak Rabin, Israel's prime minister, said in a radio interview yesterday that the agreement with the PLO provided only for the release of a limited number of prisoners at this stage. How many more could be freed would depend on the progress being made in the peace negotiations and on the implementation of the declaration of principles signed in Washington on September 13.

Mr Rabin added that the peace process enjoyed widespread public support but it had to pass through certain difficult stages. One of those was the release of Palestinians.

Meanwhile in Damascus one of the radical Palestinian groups opposed to the outline peace agreement said it had agreed with Mr Arafat's Fatah movement to end clashes in the Gaza strip.

The Popular Front for the Liberation of Palestine led by Mr George Habash said the agreement was reached during talks in Gaza between representatives of both groups.

"Both sides condemned the clashes and agreed to act to stop them immediately. Agreement was also reached to avoid any contacts which might lead to renewing these clashes," the PFLP said.

Japan's economic indicators point to continued stagnation

By William Dawkins in Tokyo

JAPAN'S economy is hovering between recovery and decline, the government's official forecasting agency said yesterday.

The latest monthly report from the Economic Planning Agency showed that the diffusion index of economic indicators stood at 50 last month, exactly the dividing line between growth and contraction.

This is a slight improvement from July, when the index stood at 40, the third consecutive month for which it had fallen below 50. The index measures the economic outlook for the coming six months, but can be unreliable, since it had indicated a recovery in the first four months of this year.

Among the index's components, money supply, machinery orders and housing starts continued to rise in August, as in previous months. The main changes in trend were job offers, which increased for the first time in five months, and industrial stocks, which started to decline for the first time in six months. Overall construction orders were down, however.

The agency's other two main indices showed a slight improvement in August. The index of coincident indicators, which measures current economic conditions, stood at 50.0 last month, against zero in July, while the index of lagging indicators, which traces economic trends in the past, was at 42.9 in August, against a 21.4 a month earlier.

Agency officials warned that weak industrial production could pull the coincident index back below 50 in September and October. Their fears were reinforced yesterday by an announcement from Mazda, the car producer, that it aims to make all its 25,000 staff take two extra days off in November on reduced pay, to adjust production in line with reduced demand.

NKK, the steel group, will meanwhile cut managers' winter bonuses and senior executives' salaries from November because of a fall in profits.

Japan will find it difficult to meet its target of 3.3 per cent growth in gross national product this year, admitted Ms Manae Kubota, the economic planning agency minister.

The EPA's forecast is generally seen, even by other government departments, as optimistic. Most independent economists believe the economy will shrink slightly or stagnate this year. The Industrial Bank of Japan yesterday became the latest to downgrade its forecasts, from 0.6 per cent growth for the year to next March, to a 0.3 per cent decline for the same period, followed by a 0.3 per cent rise in 1994.

British Coal wins big order from Denmark

By Michael Smith

BRITISH COAL, the state-owned mining corporation, has won its biggest overseas order since it began testing the market for potential sales in March and is on course to increase exports by more than 50 per cent this year.

The deal, concluded with a Danish electricity generator for 100,000 tonnes, was achieved against intense international competition. Shipments began this week.

It will help British Coal counter arguments, which have been voiced by MPs, and may resurface today in a house of commons debate, that it has been sluggish in winning extra sales.

The agreement, disclosed by International Coal Report, a Financial Times publication, will also provide a test for the government in how far it is prepared to go in subsidising coal sales.

In its policy document published in March the government said it would provide subsidies for sales to UK electricity generators and indicated that up to £500m was available.

Since then the generators have shown a marked unwillingness to buy additional tonnages this financial year at least.

But the government last week said it would subsidise a British Coal deal to sell 1.2m tonnes to Alcan, the aluminium company, in the north east of England.

The Department of Trade and Industry is considering British Coal's request for a subsidy for the Danish contract, which is with SK Power for its Copenhagen plant.

British Coal refused to say yesterday what price it had agreed for the Danish contract. However it is likely to be significantly below the £35 a tonne British Coal's existing contracts with the UK generators.

ICR says Danish companies have recently bought coal for as little as $30 a tonne.

The contract means British Coal will sell about 1m tonnes of coal overseas this year, compared with 600,000 tonnes last year.

Imports have also increased, however, from 400,000 tonnes to about 800,000 tonnes, according to latest figures from British Coal.

The order will not affect significantly the decline in jobs in the deep mine coal industry.

● Lady Thatcher believes the government has failed to honour its debt to the Union of Democratic Mineworkers, which opposed the National Union of Mineworkers' strike of 1985.

In tonight's episode of the BBC TV programme Downing Street: The Thatcher Years, she said: "I understand now that those marvellous working miners, the Democratic Union, feel a sense of betrayal."

Slowing UK economy hits employers

By Emma Tucker, Economics Staff

IN THE last four months UK manufacturing output was flat, export orders fell, more jobs in industry were lost and business confidence weakened, the Confederation of British Industry said yesterday.

The employers' organisation said its gloomy quarterly economic survey strengthened the case for an early reduction in interest rates by confirming that the pace of economic recovery has slowed since the summer.

Sir David Lees, chairman of the CBI's Economic Affairs Committee said: "The recovery, while still moving slowly forward, is fragile, with considerable uncertainty about the prospects for exports."

He urged Mr Kenneth Clarke, chancellor of the exchequer, to take advantage of subdued inflationary pressures to lower interest rates.

The CBI's message contributed to a sharp drop in share prices with the FT-SE 100 share index closing down 19.5 at 3165.3. The pound lost early gains against the D-Mark to close unchanged on the day, and fell over half a cent against the dollar. It closed in London at DM2.4875 and $1.4795.

Although manufacturers still hope to see a modest improvement in demand and production over the next four months, the results of the survey – covering 1,316 companies responsible for two million employees – will add to a growing realisation that sluggish demand in continental Europe is holding back recovery in the UK.

It comes as Mr Clarke is weighing options for next month's budget. Evidence that unit costs in industry remain exceptionally low, while companies have no intention of investing in plant and machinery, may tip the balance in favour of another interest rate cut, even though official inflation figures have recently started to creep upwards.

The CBI reported that for the first time since the survey was first conducted in 1958, more companies expect unit costs to fall than to rise. Over the past four months, more companies cut their output prices than raised them.

Investment in plant and machinery is not expected to increase, while investment in buildings is expected to fall. Companies report, however, that they intend to spend money on innovation and training over the next year.

Exports remain a key source of weakness with the cheaper pound proving insufficient to overcome lack of demand from continental Europe.

The survey indicated that manufacturers have made further marked cuts in export prices.

The CBI warned that if manufacturers' expectations of a pick up in export demand over the next four months are disappointed, then "it is likely that the recovery could be very sluggish into the New Year".

The outlook for jobs in manufacturing was not good. According to the CBI another 33,000 jobs will be lost over the next three months with large companies planning the biggest cuts.

The survey, which covered more than 1,300 companies in 50 different industries, found that the number of manufacturers reporting a rise in new orders during the past four months equalled those reporting a drop. The balance was also flat for output.

The CBI said small businesses had fared better during the past four months than big manufacturers.

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● Nissan to build axle plant ● Land Rover increases workforce

Vehicle makers forecast expansion

By Chris Tighe and John Griffiths

TWO UK-based vehicle makers announced expansion plans yesterday, underlining the resurgent competitiveness of the industry in the face of falling demand and output in continental Europe.

Nissan, the Japanese carmaker, is proposing a £26m expansion at its £900m Sunderland plant in north east England, even though it is temporarily halving output from the site because of weak European sales.

Meanwhile, Land Rover is taking on another 300 workers to increase production of its four-wheel-drive vehicles in central England. The expansion will bring to 600 the total recruited since September by Land Rover, a subsidiary of the Rover group owned by British Aerospace.

Nissan's new investment at Sunderland has been prompted partly by the strength of the Japanese yen; the expansion includes a £16m rear axle sub assembly plant, replacing imported axles made by Nissan in Japan.

Nissan Motor Manufacturing UK declined yesterday to say what reduction would result in the production cost of Sunderland-made cars.

The company, which has cut Sunderland's 1993 output from 270,000 cars to 246,000, also refused to specify the planned capacity of the axle plant, due to begin open in 1996.

Although more than 80 per cent of components by value come from European suppliers, the company plans to continue importing transmissions and engine blocks, the most single expensive components, from Japan.

Nissan is also suspending night-shift for its 2,400 production workers from November 8 until the end of December. Output in 1994 may be below 246,000 cars, but the company says it is investing for the future.

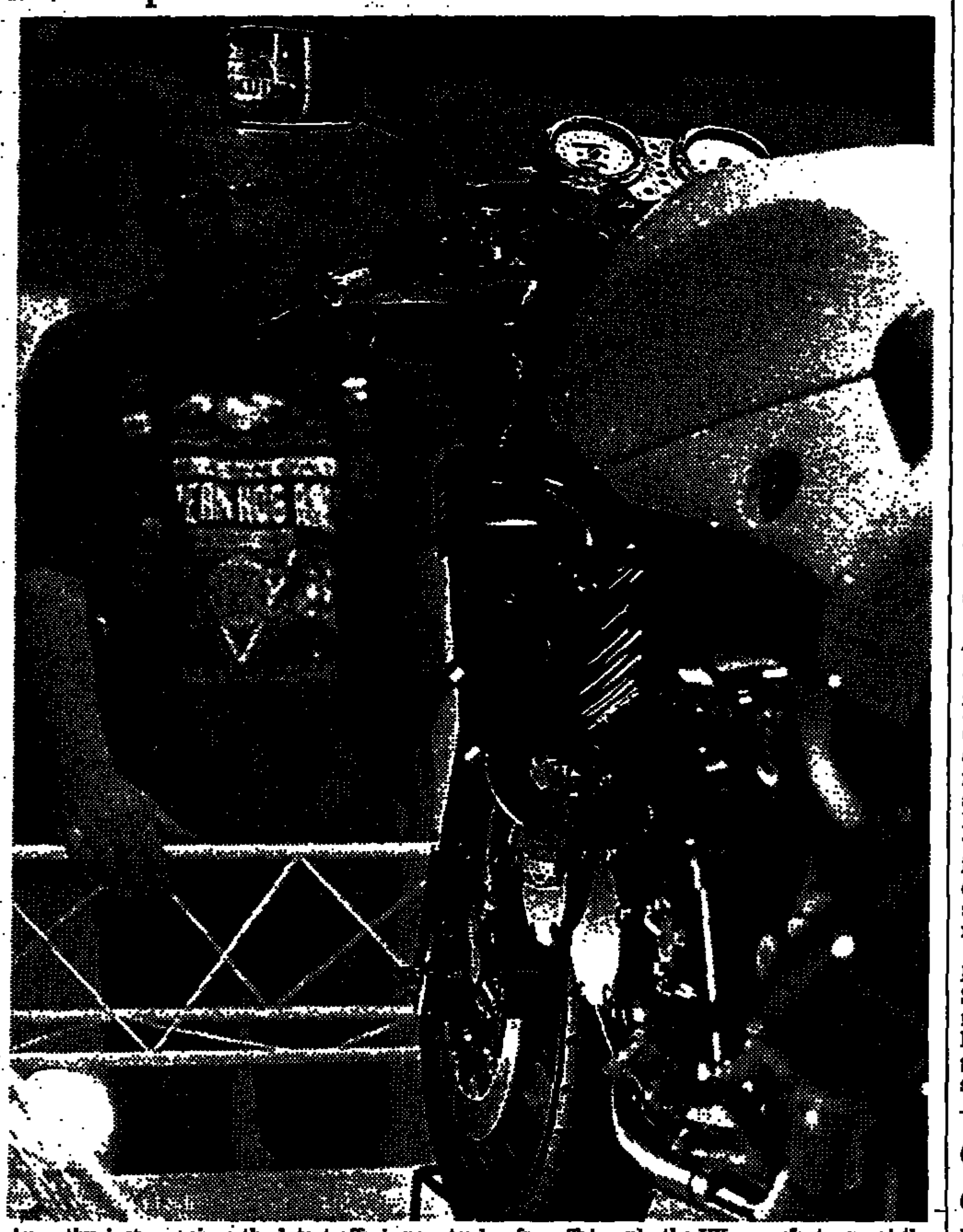
At Land Rover, the latest recruitment campaign will lift the company's total employment to 8,700 and put it on course to achieve record production levels.

Total output will be running at an annualised rate of 83,000 units when the latest additions to the work force are fully operative from November 8. As a result, this year the company expects to exceed not only last year's production of 57,000.

In September the workforce was increased with the introduction of a night shift at Solihull, lifting Discovery production from 700 a week to 900. From November this will rise further to 1,050 a week.

The increases mean that the Solihull plants will be producing a total of 1,830 vehicles a week from November, a 42 per cent increase over the 1,290 a week at the start of the year.

Honda, the Japanese manufacturer, is also preparing to market Land Rover's Discovery model. In Japan, it will be badged as the Crossroad. The Discovery is to be launched early next year in North America, where Land Rover plans to quadruple total sales to 16,000 units a year over five years.



An enthusiast examines the latest offering yesterday from Triumph, the UK manufacturer, at the Motor Cycle Show in Birmingham. While domestic car sales are recovering motorcycle executives believe their sector is now bottoming out after more than a decade of decline

Britain in brief

Unit trust sales reach £668.6m

Net sales of unit trusts were £668.6m in September, down from £981.2m in August. Nevertheless, the increase still took net sales for the year to date to £6.91bn, more than in the whole of 1987, the previous record for a calendar year.

The popularity of Personal Equity Plans, which offer tax-free returns, has been a major factor behind unit trust sales. Of net unit trust sales of £2.6bn in the third quarter, £612m was in Pep form. Funds invested in unit trust Peps now amount to £6.5bn, out of a unit trust total of £84.1bn.

Gross sales of unit trusts in September were £1.38bn and repurchases £711.6m. The slight dip in sales from August's total may have been due to the generally weaker performance of stock markets in September, although they have rebounded to new highs this month. Compared with August, sales to both private and institutional investors were slightly down.

South east faces jobs reversal

A shrinking financial services industry in the south east is leading to fewer jobs and changing working patterns for employees, according to a report. The report of a joint study by academics at Hull and Bristol Universities warned that the industry could be facing a period of long term decline after the wholesale shakeout in jobs and companies over the past two years.

The report, "A Reversal of Fortune?", published by the South East Economic Development Strategy, is calling for local authorities to take greater interest in the provision of financial services.

Ofwat seeks compensation

Water companies should increase compensation for poor service rather than their directors' salaries, according to the Ofwat National Customer Council, the industry watchdog.

The council said that water company customers do not have the same rights as customers in a shop, and the water companies were slow to handle complaints and offer compensation.

The water companies rejected the criticisms. The Water Services Association said it had a scheme to guarantee standards, and the reference to chairmen's salaries had "no conceivable relevance to the issues in hand".

Union chief backs flexibility

Companies can combine job security for employees with the ability to adjust overall employee numbers as markets change, according to one of Britain's leading trade unionists. Mr John Edmonds, head of the GMB general union, cited Rover, the vehicle manufacturer, and National Power, the generator, as companies which had no compulsory redundancy agreements with their unions but had also shed large numbers of staff in the past two year.

Banks defended in LSE defence

The financial system has been unfairly blamed for short-term attitudes among UK companies, Professor Harold Rose of London Business School said last night in a memorial lecture for Harold Wincott, the former FT journalist.

Professor Rose argued that finance had been "more scapegoat than villain" in limiting Britain's economic growth. Many traditional criticisms of banks and securities markets were contradictory, and lacked supporting evidence.

In the 23rd annual Wincott Lecture, Professor Rose said that while banks were criticised for their short-term view, "it is the large British corporate customers rather than the banker who is reluctant to enter into the marriage".

Thames in £90m ITV deal

Thames Television, the independent television production company that lost its ITV franchise, announced yesterday that it had signed a deal to make programmes worth over £90m for the ITV Network Centre, the ITV programme commissioning organisation. Thames said the agreement was the largest ever in the UK with an independent producer.

Fraud put at £632m this year

The value of fraud charges brought in the UK courts was £632m in 33 separate cases during the first eight months of this year, according to the latest figures in the Fraud Barometer produced by accountants KPMG Peat Marwick. That compares with £671m in charges from 84 cases for all of 1992. The firm said that fraud sentencing was inconsistent, with disproportionately harsher sentences going to professional advisers who abuse positions of trust.

Insurers may face mis-selling charges

By Norma Cohen, Investments Correspondent

LAUTRO, the self-regulatory body for the life insurance industry, is considering charges of mis-selling against at least three of Britain's largest life insurance companies.

The three, whose identity has not yet been disclosed, are all public companies. In at least one of the cases, thousands of investors may be eligible for compensation. Charges against the companies centre on their failure to control the hard-sell tactics of tied agents who sell their products exclusively but are not directly employed by them.

The companies failed to monitor the sales agents to ensure that they were giving best advice to investors and failed to exercise due care in the recruitment and training of sales agents.

Lautro, which yesterday released its report on its enforcement activities for the 12 month period ended June 30, said it has seen signs of improving compliance with its rules on selling. It found some signs that the insurance industry is improving the extent to which it complies with Lautro rules on selling insurance.

But it noted "that a small number of the largest and most serious cases to occupy the Monitoring Committee recently... involved major, 'household name' Life Offices."

Complaints to Lautro from the public continued to grow, rising 35 per cent in the period to 2,774. However, Lautro noted that the rate of growth was lower than the 50 per cent rate recorded the year before.

Premiers to discuss Ulster peace plan

Friday's Anglo-Irish meeting is likely to be dominated by growing unrest, according to FT reporters in London, Dublin and Belfast

THE Hume-Adams proposals for peace in Northern Ireland will be discussed on Friday by Mr John Major, the Prime Minister, and Mr Albert Reynolds, the Irish premier, it emerged yesterday.

The meeting was confirmed against a background of rising violence in Belfast in the wake of Saturday's IRA bombing in the protestant Shankill Road, which killed 10 people.

Mr Dick Spring, the Irish deputy Prime Minister, said he expected both prime ministers to give the Hume-Adams initiative "very serious attention on Friday to see where the process can go from here".

Extra troops and police were moved to Belfast from elsewhere in Northern Ireland yesterday after two catholics were killed and six wounded in two separate incidents.

In a second incident, police arrested a soldier after a shooting outside the home of Thomas Begley, an IRA bomber killed in the Shankill Road attack.

In London, Mr Major told the House of Commons the perpetrators of this week's terrorist attacks would be "hunted down and subjected to the full severity of the law."

The government, however, ruled out the reintroduction of internment (group detention without trial). Sir John Wheeler, the Northern Ireland security minister, said there were "no simple, easy solutions."

Downing Street continued to distance itself from the peace proposals put forward by Mr John Hume, leader of the mainly catholic SDLP, and Mr Gerry Adams, president of Sinn Fein, the political arm of the IRA.

Officials said Mr Major was willing to talk to Mr Reynolds, but was more interested in reviving the stalled "three strand" talks under the auspices of the Northern Ireland Secretary.

In an indication of the sensitivity with which the issue is regarded in London, Downing Street said neither Mr Major nor Mr Reynolds had asked for a bilateral meeting in Brussels. British officials said the Brussels summit offered a "useful opportunity" for a meeting, but stressed that there was no formal agenda.

Downing Street also continued to maintain that Mr Major had not seen the Hume-Adams proposals, and was unaware of the details of the initiative.

The Hume-Adams proposals are regarded with deep suspicion by the Ulster Unionist party, which is committed to sustaining the Conservative government in office.

The government has denied that it did a deal with the unionists to avoid a Commons defeat in a confidence debate on the Maastricht treaty earlier this year.

However, the Commons procedure committee is expected to decide today whether to respond to unionist demands for the establishment of a Northern Ireland select committee. Irish officials said the Shankill Road bombing had "seriously damaged" the Hume-Adams initiative, but Dublin appeared keen to keep the proposals alive.

Mr Spring said the two governments had an "obligation" to look at "any opportunities" to bring about peace in Northern Ireland "despite the (IRA) atrocity of last weekend."

Mr Spring also said the two governments should consider responding to unionist demands for the publication of the details of the Hume-Adams initiative.

Rail campaigners protest at sell off

MORE THAN 1,000 campaigners opposed to the privatisation of Britain's state railway protested at Westminster yesterday, while union leaders described the sell-off plans as "utterly destructive and sheer lunacy", writes Roland Rudd.

The protesters came from as far as Scotland. Pro-rail supporters travelled on a special campaign train that left Glasgow in the early hours and called at Edinburgh, Newcastle-upon-Tyne, Darlington, York and Doncaster before arriving in London.

Yesterday's protest coincided with a survey of rail commuters by the Save Our Railways group showing that one in five could switch from train to car if fares went up as expected under privatisation.

Mr Jimmy Knapp, general secretary of the largest rail union, the RMT, said: "There is a deep and growing anger about the sheer lunacy of the government's proposals."

He warned: "They are unworkable and untried and they will undoubtedly lead to closure of services."

Mr Richard Rosser, leader of the white-collar TSSA, said: "The government are not so much playing at trains but playing with trains and playing with them in an utterly destructive manner."

Both union leaders backed calls for Tory MPs to rebel and force through an amendment to the Railways Bill, which would allow British Rail to bid for franchises in a privatised network.

The calls have come from the opposition Labour and Liberal parties which are trying to wreck the government's rail privatisation legislation currently going through parliament.

European consortium to tender for bridge

By James Buxton

A CONSORTIUM of European construction companies has been formed by Tarmac Construction to tender for the building of the second Forth road bridge. It is the fourth consortium known to have registered an interest in the project, which might cost £275m.

The government is expected to announce early next year whether it wants to go ahead with the new bridge. By next month it will have received feasibility studies on the project, which would be privately funded and operated, and earn revenue from tolls on the new and the existing bridges.

The Scottish Office will draw up a shortlist of three consortia to tender for the project.

The consortium led by Tarmac includes the construction companies Bilfinger and Berger of Germany, Bouygues of France, and HBM (Civil Engineering) of Holland, as well as Transroute, a French toll road operator. It is advised by Morgan Grenfell with lending to be led by NatWest Markets and Banque National de Paris. The grouping is called E15 after the European number of the road which crosses the Forth.

Other consortia to have declared their bids are: Forthspan, led by Trafalgar House and Balfour Beatty, advised by Kleinwort Benson; Forth Link, consisting of Taylor Woodrow, Sir Robert McAlpine, John Mowlem and Morrison Construction, together with Dragados of Spain and Monberg and Thorsen of Denmark, advised by BZW; and John Laing, GTM-Entrepose of France and Miller Group of Edinburgh, advised by Bank of America.

Petrol retailers seek changes in contracts

INDEPENDENT petrol station owners yesterday demanded substantial changes to their contracts with major oil companies because of growing competition from discount outlets, particularly those at supermarkets, writes Robert Corzine.

The Petrol Retailers Association said failure to reach an agreement on new terms could prompt demands for an investigation by the Office of Fair Trading.

Mr Phil Richardson, association president, said the problem stemmed from the fact that under current contracts, large oil companies exercised a high degree of control over the prices individual retailers can set for branded petrol.

He said some oil companies have maintained margins on petrol sales by individual retailers even though nearby discount outlets may be selling petrol at prices 5 pence per litre less. In such circumstances retailers have reported sales volumes falling by as much as 40 per cent.

The retailers want a "force majeure" clause to be added to the supply contracts. It would enable them to buy petrol from oil companies other than the one to which they are contracted if the original supplier was "unable or unwilling to supply at competitive rates."

Stage set for cabinet battle on cuts

By Philip Stephens, Political Editor

A REPORT by a committee of senior ministers recommending deep cuts in central government budgets for local authorities, defence, housing and transport last night set the stage for a full-scale cabinet battle tomorrow over public spending.

But a partial retreat by Mr Kenneth Clarke, the chancellor of the exchequer, over the scale of cuts in the armed services has defused a threat by Mr Malcolm Rifkind, the defence secretary, to demand a fundamental review of Britain's security commitments.

Mr Peter Lilley, the social security secretary, has resisted successfully treasury demands for the means-testing of child benefit. But he has accepted cuts in mortgage interest payments to unemployed homeowners and other measures.

He is also battling with Mr Clarke over compensation for the elderly and poor to offset the impact of Value Added Tax on domestic fuel.

Mr Clarke was yesterday finalising the recommendations of EDX, the cabinet committee charged with reconciling the competing claims for resources from Whitehall departments with a commitment for a freeze on overall spending.

Mr Clarke wants an agreement to undershoot the ceiling for 1994/95 by up to £1bn. The aim would be to convince rank-and-file Tory MPs that tax increases in next month's Budget were not a substitute for harsh decisions on public spending. But senior ministers said yesterday that two months of discussions within EDX had failed to achieve anything resembling a firm settlement.

"EDX has made recommendations. It has not reached a settlement", one minister said last night. The final deal will have to be hammered out by tomorrow's cabinet or one next week.

Although the gap between Mr Rifkind and Mr Clarke has narrowed, the defence secretary will appeal to the cabinet to protect more of his budget in 1996/97. He will be joined in a call for more favourable treatment by Mr Douglas Hurd, the foreign secretary, and other ministers.

But whatever the outcome of the cabinet's deliberations the budgets for local authorities, defence, housing and transport are expected to emerge as the biggest losers. Local authorities cannot expect any real increase in the £41bn the government has estimated they should spend in the present financial year, while housing associations will be the main victim of large cuts in the £8bn a year housing budget. Mr MacGregor faces the prospect of sharp reduction in both his road-building and rail budgets. Mr Rifkind is resigned to cuts of around £1bn by 1996/97 in the £23bn defence budget.

MANAGEMENT

The US steel industry is taking part in an experiment in employee involvement, writes **Richard Waters**

The unions step on board

After 10 years of losses, lay-offs and falling market share, the US's biggest steel companies have come up with a new way to improve their competitiveness: allow union representatives on to their boards.

Five of the six big integrated steel companies have already concluded agreements with the United Steelworkers of America (USWA) in a move which amounts to one of the most far-reaching experiments in employee involvement undertaken in any US industry. US Steel, the country's biggest producer, could follow suit later this week, if company and union negotiators meet their deadline of reaching a new labour agreement by Friday.

No other US industry has ever experimented with union involvement on this scale. Individual companies, most notably Chrysler, have conceded board seats to their unions in the past, but the practice has never taken root across an entire industry before.

The agreements also provide for union involvement in committees at all levels of management.

Yet the benefits of worker participation on this scale remain unproven. Will it make any difference to the flagging fortunes of the big steel companies, which are struggling to catch up with newer, un-unionised competitors?

And will the changes turn out to be anything more than temporary, just another phase in "Big Steel's" long decline?

The US's six big integrated steel companies (those involved in every step of steel production, from making the coke for use in their furnaces, to rolling out and coating finished steel sheets) have already cut their combined workforce from 270,000 at the start of the 1980s to fewer than 100,000 now. They have invested more than $13bn (£9.3bn) between them in the past decade to become more efficient.

However, with overcapacity in the worldwide steel industry and the inroads made by the small "mini-mills" and reconstituted mills at home, a return to sustained profitability remains elusive.

In new six-year accords struck with the USWA this summer, four companies – Inland, followed by Bethlehem, National and Armco – agreed to appoint union representatives to their boards and to adopt extensive co-management arrangements. A fifth, LTV, has activated a similar plan since coming out of bankruptcy protection at the end of June.

There are two ways to explain the development. One – espoused publicly by the companies and the union – is that giving workers more of a say will lead to more efficient production methods and make the companies more competitive. "It's kind of an unorthodox way of dealing with the problem," says John Jacobson of Wefa Group, an economic research company. "But they haven't been very successful with anything else they've tried."

The other, more cynical, view is that companies find it easier to lay off workers or overhaul their working practices if they adopt a less confrontational approach to labour relations: it is difficult for union leaders to oppose big changes if they have been closely involved in their origin.

According to some labour relations experts, this motivation may lie behind many of the attempts in the US at employee participation since the mid-1980s.

"When companies have excess capacity, this could be a way of making the cutbacks more palatable," says John Dunlop, a former US labour secretary and chairman of a commission set up by the Clinton administration in March to look at the legal framework for labour relations in the US.

Either way, the agreements should have an indirect benefit for the steel companies in the short term. In return for the promises of greater participation in management and a guarantee that there will be no compulsory redundancies, steelworkers have agreed to a freeze in basic pay for the next two years and to greater job flexibility.

But it is less clear whether the participation agreements will yield the sort of sustained productivity improvements their supporters claim. There are at least two reasons why some of the hoped-for productivity gains could prove elusive.

First, and perhaps most important, old attitudes on both sides of the union/management divide die hard. Labour relations in the industry have traditionally been adversarial, says John Goodwin, manager of US Steel's Gary, Indiana, plant, the biggest in the US. "We've got a long way to go – we've got 80 years of history to overcome."

Second, there are very different perceptions of what closer union involvement in management actually means. Will the union's representatives have an influence over strategic and other decisions taken by the big steel companies, or are they simply being invited into the executive suite to observe?

Terry Kirk

Tin hat and cigar: a suitable image of steel workers in the boardroom

Both sides talk glibly of a new-style "partnering" approach to management, preferring to hide behind this piece of management-school jargon rather than face up to the real question: does the new approach amount to a form of co-management, or simply as an extended exercise in worker communication?

"What they [the union] want is to see what's happening and why decisions are made, rather than trying to take decisions themselves," says Joseph Emig, manager of Bethlehem Steel's plant at Burns Harbour in northern Indiana, which is now the home of the US steel industry.

Some union officials appear to agree. Jack Parton, director of the USWA's East Chicago district, says: "I can't run a steel mill. I didn't go to business school, and I don't intend to go to business school now."

He and other officials have recently been invited to attend the regular fortnightly meeting of senior Inland Steel executives, called to review progress against the company's plans. They are not there to second-guess the line managers whose responsibility it is to meet certain targets, he says.

But other union representatives talk of more positive involvement and it seems unlikely that they would sit passively as decisions were taken that would harm their members' interests.

The difference of perception is most acute when it comes to the question of board-level representation. The steel companies point to the legal responsibilities the union's directors will face.

"The first, foremost and only obligation of every director is to represent the interests of shareholders," says an official at Inland Steel.

Union members, though, cling to the idea that the directors they nominate will represent their interests, not those of the shareholders. To some, it seems like an opportunity to fight the old union/management battle from the inside. "Boards give their management people golden handcuffs – we hope we will now be able to put a stop to things like that," says Andy Hopkins, a tractor driver at Bethlehem's Burns Harbour plant and a part-time union official.

Doug Frazer, a former head of the United Auto Workers, agrees. In the 1970s, he became the first union leader to sit on the board of a leading US company when he was appointed a director of Chrysler. Union-appointed directors are there to fight for the interests of workers, he says. They also have a right to tell their members everything their boards do.

"I said that as far as I was concerned, nothing was confidential. There's not enough openness in these large organisations."

Such comments send shudders through secrecy minded executives. But, in practice, the union-nominated directors are likely to be able to exert little direct influence, even if they wanted to.

"It will not make a difference to the way the company operates. But if it makes all our employees understand better why decisions are taken, it will help," says Curtis Barnette, chairman of Bethlehem.

It is also questionable whether the new arrangements will stand the test of time. The history of US labour relations is littered with similar examples of experiments at employee involvement that did not last.

It takes a crisis to encourage companies to let workers on to their boards, says Frazer. When Chrysler had returned from the brink, the union seat was quietly dropped. "I think they stole that seat from us," says Frazer.

If all the big steel companies agree to let union representatives on to their boards, the experiment this time could at least prove longer lasting.

Personnel crisis? what crisis?

David Goodhart explains why the role is becoming less pigeon-holed

The recession has been rather kind to Britain's personnel practitioners. The annual conference of the Institute of Personnel Managers, which opens today in Harrogate, is the biggest yet staged.

The IPM is expecting 1,800 delegates and now claims 52,000 members out of a total number of personnel managers estimated at 100,000. And the latest issue of Personnel Today reports that personnel vacancies are on the rise again.

On the face of it this seems strange. Larger companies might have temporarily boosted their personnel function to cope with the large redundancy packages of the recession years, but the longer term outlook for the traditional personnel function is supposed to be poor.

The conventional view of decline states that as the importance of human resource management has been recognised, so large parts of the personnel function have been devolved to line managers.

Geoff Armstrong, now head of the IPM and a veteran of industrial disputes in the car industry, recalls: "In the 1960s and 1970s we had constant bargaining about change and line managers abdicated the personnel function to big, centralised personnel departments."

Most of those big departments have been slimmed down or even closed. And not always because of a belief in the virtues of decentralisation. When hard-nosed conglomerates such as Hanson Trust took over a company in the late 1980s one of the first things they did was to close the central personnel department.

In smaller companies, too, the specialist personnel function has often disappeared completely, creating more work for employment lawyers.

"A lot of companies have lost all internal expertise on employment law matters which law firms have capitalised on," says Paul Nicholls of Dibb, Lupton and Broomhead which has increased its employment law staff from four to 14 over the past two years.

Privately, many senior personnel managers admit these changes have led to an identity crisis for the personnel function.

"Personnel often has a rather dated 1970s image, still trying to find a balance between labour and management," says one. "The personnel function is being pulled in so many different directions but it really has got to prove its hard-edged business advantage," says another.

Sometimes this identity crisis is played out in the conflict between "soft" personnel people trying to balance interests, and "hard" human resource managers trying to improve efficiency, often in a non-union environment.

It also seems to be afflicting the government-appointed lead body which is having trouble defining what personnel managers actually do in order to establish National Vocational Qualifications for them.

John Hougham, now head of Acas and former head of personnel at Ford, is suspicious of the hard-liners and fears the decline of the more traditional personnel function.

"The personnel function is showing some signs of losing its organisational status in some quarters," he warns.

But even if the traditional, "collectivist" personnel manager is disappearing, the personnel function is adapting to survive, as the continuing growth of the IPM seems to show.

Peter Reid, head of employment affairs at the Engineering Employers Federation, says that personnel is now less pigeon-holed than it used to be and that a spell in personnel is increasingly useful for a board-level director.

Indeed, if board-level representation is an indicator of the status of the personnel function then there is little to worry about.

According to the Cranfield School of Management, 49 per cent of all private and public organisations employing more than 200 people have a personnel representative on the board, up from only 40 per cent at the start of the 1980s.

BUSINESS AND THE ENVIRONMENT

Signs of order spring from chaos

Argentina is starting to take green issues seriously, but progress is slow, reports **John Barham**

When seven people died last month in a working-class suburb of Buenos Aires, overcome by highly toxic fumes from industrial waste which a company had dumped into drains near their homes, the tragedy featured nightly on television news programmes.

But within days, judges, politicians and regulators began squabbling over who was responsible for the disaster and who should be hunting down the owners of the waste disposal company blamed for the incident.

Meanwhile, the government felt compelled to "do something" and dusted off a requirement – never previously enforced – that companies handling hazardous waste must register with the Natural Resources and Human Environment Secretariat.

However, after a few weeks, both the media and the government had forgotten about the incident.

Sadly, nothing about this event was unique. Every time an environmental accident hits the headlines, as frequently happens, competing bureaucracies start rival investigations and issue a blizzard of rules and regulations which are soon forgotten.

Argentina's most important body of environmental laws was born under similar circumstances. Reports in 1991 that industrial waste from developed countries was being dumped in Argentina led to a new toxic waste law in January 1992. The government also included environmental offences in the civil and criminal codes.

Basically, the law established a cradle-to-grave rule making companies responsible for the safe disposal of waste. But it took the Environment Secretariat 17 months to publish detailed regulations making the law enforceable. Until then, companies were in legal limbo.

The law is contradictory and confusing. Jenny Valdirio, an environmental consultant, said it "is practically a copy of US legislation, but conditions [here] are not similar. There is less technology and there are fewer treatment possibilities". And its definition of toxic waste is so broad that anyone with an open oil can in their garage is violating the law.

Until recently, none of this mattered much. Argentines were too busy coping with military repression and economic instability to worry about the environment. Advanced legislation introduced during the turbulent 1970s, such as the clean air law of 1975 and a decree establishing the "polluter pays principle", were rarely enforced.

Now, with democracy and economic stability more firmly established, people are demanding a halt to environmental degradation, particularly of water sources.

In Buenos Aires, untreated sewage is poured into tributaries of the River Plate. In the city's industrial belt, factories, slaughterhouses and tanneries dump waste ranging from animal blood to heavy metals into the rivers. Environmentalists claim companies often have waste treatment units but do not use them. People who live in the industrial belt suffer from dysentery, gastroenteritis, hepatitis and worms. The water table is contaminated.

Even the government admits that the courts are slow, inefficient and corrupt. As a result, offenders are rarely punished

Raymond Florin, executive director in Argentina of the Business Council for Sustainable Development, the body created by the environmentally-conscious Swiss businessman Stephan Schmidheiny, says demand for change "is coming from all over the place – people, politicians, judges, NGOs, the state, the media – and very quickly. Great changes are taking place [so rapidly] that people don't know what to do".

Companies are struggling to adapt. "Six or seven months ago nobody talked about the environment. Now you talk to any manager and he'll have something to say about it," says Florin. However, he admits that even large companies are still unwilling to set up environmental control departments.

The government is changing slowly. Its Environment Secretariat is staffed with political appointees who have little understanding of environmental policy. The secretariat's 1993 budget of $19m (£12.5m) is half the sports budget. Even the government admits the courts are slow, inefficient and corrupt. Thus offenders are rarely punished. Amid this chaos, however, order is beginning to emerge. More rational economic organisation is a big part of this.

The government has privatised environmentally sensitive steel, chemical, energy, water and petrochemical industries. Before, these companies were run by authoritarian bureaucracies which disregarded the law and were not publicly accountable.

Privatised utilities are now charging consumers the real cost of water, electricity and gas – which the state once provided at artificially low prices that discouraged conservation.

As well as buying state assets, private companies also took on the state's environmental liabilities. Independent government regulators are starting to enforce environmental and quality standards that were once ignored. Some business people admit that if they had realised the size of these liabilities, their privatisation bids would have been much lower.

Pedro Tarak, executive director of Fundacion ARN, a Buenos Aires environmental foundation, says individuals, associations, local government and congress are demanding greater participation in policy-making and enforcement. Even the much-criticised Environment Secretariat is reforming and hiring professionals.

Argentina has a long way to go. Accidents like the one that cost those seven lives will recur. Tarak says "unfortunately we still need more situations [like that] so we all understand the need to get organised".

US plans to minimise the use of high-risk insecticides have spawned a new generation of safer products, writes **Victoria Griffith**

Assault on pesticides

The Clinton administration's new proposals to encourage reduced-risk pesticides represent a comprehensive reform package which is likely to alter radically the way pesticides are used in the US.

In response to increased pressure for new rules by environmental and health activists, the new law would impose a tough, uniform standard for all foods. The proposal would scrap the 35-year-old Delaney Clause, which poses stricter rules on the use of pesticides in processed foods than in fresh foods. In its place, the proposed new law would:

- Extend the current standard of a "reasonable certainty of no harm" from canned goods to raw fruits and vegetables.
- Establish goals for the reduction of pesticide use by 2000.
- Eliminate the consideration of "economic benefits" in the pesticide approval process.
- Enhance enforcement.
- Give greater priority to safer and reduced-risk pesticides.
- Require high-risk pesticides to meet the safety standard within three years and all other pesticides within seven years.

The package was put together against a background of growing evidence that pesticide levels in the US are too high for the safety of infants and children. It was also a response to increasing concern about the ecological impact of toxic pesticides.

However, the proposed regulations are worrying for farmers since a number of existing pesticides would be rendered illegal. In response, farmers would be forced to find alternatives to keep their crops insect- and disease-free.

Propitiously, a new generation of pesticides is beginning to make its way on to the market. A number of companies are investing heavily in the development of low-risk pesticides, which range from genetically-altered plants and bacteria to wider use of naturally-occuring pesticides.

"We need to consider alternatives to traditional pesticides," says Frederick Betz, a senior biologist at the Environmental Protection Agency. "Fortunately, there's a lot already on the market and a lot which will soon become available. I think the production of reduced-risk pesticides will boom over the next few years."

The Food and Drug Administration has promised speedy review of pesticides which fall into the reduced risk category, in an attempt to move products quickly from the research laboratories into farmers' fields. As a result, a flood of new, alternative pesticides may be approved in the next few years.

One of the most novel areas of research is in pheromones, chemicals which influence the sexual behaviour of insects. Pheromones,

Farmers are worried that a number of existing pesticides will soon become illegal

which are harmless to humans, can be used to lure insects into traps, or can be released in concentrations large enough to disturb mating patterns. "If we put out enough, the insects can no longer use the pheromone as a signal to find their mate," says Betz.

One US pesticide manufacturer, Ecogen, has identified more than 200 insect-specific sexual hormones and is searching for ways to use them effectively in the field. "We like to put them in a form in which they can be sprayed, so they'll be more practical," says David Olson, Ecogen's director of regulatory affairs. "We also need to have them vaporise slowly, so they'll be effective over the course of a few weeks." As a possible solution, Ecogen has designed plastic microcapsules which can be used in a spray form and dissolve slowly over time.

Another important development is the cultivation of plants which are genetically engineered to resist pests. A number of companies are conducting research in this area and several hope to offer genetically engineered seeds for sale within the next few years.

"Nature produces chemicals which are poisonous to certain insects, but not to humans or beneficial pests," says Mike Sund, spokesman for Cibaseeds. "We're trying to create plants which produce these chemicals themselves."

Cibaseeds, part of the Swiss Ciba group, is working jointly with Micogen to develop a maize plant which is resistant to the common and destructive pest, the European corn borer. Monsanto has programmes in place for cotton and potatoes as well as maize and believes this method, besides being good for the environment, will be extremely effective.

"Using traditional, exterior insecticides can be a hit or miss thing," says Frank Serdy, regulatory affairs director for Monsanto. "But if the plant itself is excreting the chemicals, the insect gets a load of toxins with every bite. Genetically engineered plants are the wave of the future in pest control."

Manufacturers are also using genetic engineering to alter naturally occurring bacteria, or microbials, which act as toxins to certain insects.

"These bacteria are well-established as safe pesticides," says Janet Overholt, manager of regulatory affairs for Novo Nordisk. "But there is a lot of room to improve their efficacy."

Many of the bacteria, for instance, lack stability in the field. They are often sensitive to light, and may last no more than a few hours. Others are not as target-specific as desirable. The pesticide companies are seeking to enhance their effectiveness.

However, not all groups are convinced that genetic engineering is the solution. Despite strong support for these programmes from the Clinton administration, activists are already organising consumer boycotts against genetically engineered food products. Ironically, the new, reduced-risk pesticides may encounter more opposition than the high-risk products they will replace.

The solution, according to the pesticide group EcoScience, is to stick with natural pesticides. The company researches naturally occurring pesticides in the field and packages them as pesticides. One product, a fungus which was originally found in Iowa, sticks to roaches, eventually causing death. Another bacteria is effective in eliminating post-harvest disease in apples and other tree fruit.

Micogen has also discovered a native maize species which is resistant to the corn borer and is using cross-breeding methods to enhance the resistance of cultivated plants.

But these solutions are limited. Moreover, because insects tend to build up resistance to pesticides, a wide range of products is needed. "The key is to use one insecticide for a while and then switch to another, rotating them," says Serdy. "No single pesticide will provide the final solution. That's why we need to look at all the alternatives available."

Television / Patricia Morison

Saddam's unseen victims

VIEWPOINT 93; *Saddam's Killing Fields* (Tuesday, ITV) was a poignant reminder that what the lens does not see the heart does *not* grieve over. It showed how different have been the experiences of two groups of Saddam Hussein's opponents, the Kurds and the Shia of southern Iraq.

The luck of the Kurds began to turn when the cameras focused on the poison gas victims in the streets of Halabja. The cameras were back in force to film the Kurds' exodus to the mountains, stumbling through the mud and snow. Those pictures struck a chord in the outside world; emotion was translated into action and the Kurds – at least in the short term – are safe.

The documentary, filmed in Free Kurdistan and Iran but not Iraq, pieced together evidence of the scale and viciousness of the Iraqi army's reprisals, said by the Kurds to have claimed 300,000 Shi-ite victims in the *intifida* 1991 alone. The colossal bad luck of the Shias is that since the crushing of their *intifada*, they have been hidden from the world's sight. The programme examined the genocidal Iraqi policy towards the Marsh Arabs and argued that the idea of a safe haven in the south must be resurrected.

The Marsh Arabs, said to number 70,000, face the extinction of their unique way of life as their villages are rocketed, the waterways are poisoned, and the buffaloes, fish and reed-beds die. The chief external witness to the Marsh Arabs' destruction have been satellite photographs of land which is now brown and lifeless, the effect of Iraq's notorious *drainage project*. It was presented to the UN as an agricultural improvement scheme, but human rights observers are convinced it is an instrument of genocide.

An amateur video made six months ago showed Marsh Arabs appealing to the UN and US for help, above all for the canals to be bombed so that the water returns. The hopelessness of these people was eloquently expressed by the bitter words of one refugee: "They come to film us and set us to music like the TV comedy they think we are."

The UK's foreign Office minister Douglas Hogg explained with wondrous suavity that there was no possibility of external intervention although "'the process' will probably take some time. It is at least possible that within the timeframe Saddam may fall." To hear genocide described as "a process" gave a small chill. My mind jumped back to last Wednesday and the first part of *Thatcher: The Downing Street Years* (BBC2), in which that lady lambasted the Foreign Office and its "whole culture" based on negotiation.

The Thatcher documentary is guinea-a-minute stuff. With the second instalment screened tonight and such reams of comment already written, I will not dwell on episode one except to say that the gender aspect was particularly interesting. During her time in office Lady Thatcher showed little interest in women's causes. Accepting membership of the single-sex *Carlton Club was just one example of her lack of solidarity*. Even so, I thought Lady Thatcher's observations about the prejudice she encountered for being "that *woman*" was telling.

Mrs Thatcher used sex as a weapon in her rise, but it also helped others to belittle her and it played a part in her downfall. There is meat there for every woman who operates in a male environment, however hostile she is to Thatcher's political values, to ponder.

The Foreign Office came in for a pounding in *Dispatches* (Wednesday, C4), a gripping dramatisation of Lord Justice Scott's inquiry into the arms for Iraq scandal. The programme had actors impersonating figures such as David Gore-Booth and William Waldegrave at the most uncomfortable moments of their grilling by Scott and Presilly Baxendale. It made compulsive watching and whetted the appetite for what is to come when Lady Thatcher and the Prime Minister appear.

At some time I have been asked (possibly by my credit card company) for my mother's maiden name as a way of ascertaining my credentials over the telephone. *Panorama; Secrets for Sale* (BBC1, Monday) showed that no question, however arcane (dog's name, favourite pudding), could protect personal data.


A threatened world: a rare recent picture of the Marsh Arabs whose plight was detailed in Saddam's Killing Fields on Monday night

Panorama filmed a ferrety character called Robert Hemphill using a lens concealed in a rolled umbrella. His company is one of many which offer to obtain details of bank accounts, credit cards, police records, National Insurance and National Health records. Panorama set Hemphill to penetrate the private details of four people, among them trade union secretary Rodney Bickerstaff and Lord Parkinson's former lover, Sarah Keays.

The four were amazed to discover the speed with which secret information could be produced. Hemphill, unaware of the umbrella lens, explained that he could gain access to the police computer at Hendon which holds criminal records. He told his *Panorama* contact: "It's literally bribing a police contact; it is that simple"

The scam revealed, Hemphill high-tailed out of the office pursued by his Panorama interviewer. Some aspects of this kind of intelligence gathering come close to criminality, but many are beyond the reach of the Data Protection Act or any other legislation. Is the open society in one respect effectively already here?

What a relief to turn to more rarified matters: the fate of vanished civilisations, examined on *Equinox; Out of the Past* (C4, Sunday). Who could envy the modern archaeologists after a programme in which we saw them spending years counting pine seeds and measuring microscopic variations in the cutting edge of obsidian knives? The end result, however, is an important jolt to the old chronology of the collapse of Mayan civilisation in Central America.

It now seems that the Mayans did not suddenly vanish. Their kings departed but the ordinary folk carried on, planting their maize for two centuries. But when the end came, in the 12th century AD, it was over-population, salination, and soil exhaustion which put paid to a brilliant, cruel civilisation.

The moral is one that archaeology is increasingly coming to realise. *Pace* New Age romantics, many an ancient peasant civilisation did not live in joyous harmony with its environment. This was a brilliant documentary, untricksy, even old-fashioned, and there was no presenter but only bearded archaeologists with a far away look in their eyes. Yet for sheer cerebral excitement, it was quite the best thing I have seen in a long month supine in front of the TV.

Dance / Alastair Macaulay

Feckless talent

DOUG Elkins is a wacky klutz with a fabulous talent and no sense of structure. This American dance-maker first brought his work to Dance Umbrella in 1991; last weekend he and his company returned. Watching his work is bewildering. Two years ago, I suspected that he was the most marvellous young dance-maker to have come along since Mark Morris; now I am sure that he is. I am also sure, however, that he never bothers to turn his dances into choreography.

Almost any phrase in Elkins's work is a hilarious but thrilling fusion of contrasting traditions. Sometimes, he adds yet another layer of contrast by setting these dances to music from another culture (eg Indian) or era (eg Handel). His dancers are a complete mix – skinny or plump, short or tall, long-haired or bald – and the dances he gives them may be straight, gay, neither or both. Ironies abound; campness too. Yet the image he sets onstage is one of happy consensus, in lively harmony with the music.

In these respects, Elkins is a classical artist. His work places itself at the ends of several traditions, and occasionally suggests that he knows his own kinship to George Balanchine, Merce Cunningham, Paul Taylor, Twyla Tharp, Mark Morris, and others. The resemblances occur in fleeting references that enrich his work. Much more obvious and important are the basic virtues that his dances often show: seamless phrasing, steady current, rhythmic pulse. His dancers look like folk having a good time in a bisexual New York club *and* like artists attending to niceties of musical detail and dance style.

I like best his suite of Latin dances, *A Cerca de la Escuelita*. What rare bliss to find a choreographer alert to the metres of the cha-cha, the mambo and more. None of these dances were pure Latin, but all of them were much closer to true Latin style than any of what is practised on the professional ballroom circuit. *More Wine for Polyphemus*, though the programme dates it as new this year, incorporates material we saw two years back. Now, as then, my jaw drops at the impudent musical wit with which Elkins mixes charleston, the twist, breakdance and ballet to Joan Sutherland's recordings of Handel arias.

You watch these ingredients being so uncannily assembled, your senses ravished by first impressions, you tingle with anticipation – and then you watch this young chef pour his cooking down the drain.

In 1991, I hoped that Elkins's feckless failures of construction simply suggested that he had not yet got round to addressing larger matters of choreographic craft. In 1993, it is but all too plain that Elkins thinks that not being organised is cute. His ordering of them is full of oh-gee-is-this-a-live-show attempts at simulated clumsiness. Though his dances are no end of fun to watch moment by moment, they win only a spattering of final applause. Too flip.

His work has made me blink tears of sudden wonder, and laugh aloud with incredulous joy. Of the rare calibre of his talent, I have no doubt. Ultimately, however, it filled me with despair.

■ ■ ■

Shobana Jeyasingh is an Indian choreographer who lives and works in Britain. Her dancers employ the traditional Indian vocabulary of the Bharata Natyam style, but she uses modern Western music and many structural features of modern Western choreography. This season has invited Richard Alston to make a piece for her six dancers.

Alston is the finest maker of sheer dances in Britain today, and watching his *Delicious Arbour*, choreographed to Purcell music, is a marvellously ironic experience. For these dances both revitalise Bharata Nyatyam – and yet are clearly not *Bharata Natyam. They feel* utterly Alston – while looking utterly unlike anything he has made before.

The ironies of *Delicious Arbour* lie mainly in its rhythms and its musicality. Alston has applied features of Indian dance metre to the radiant baroque measures of Purcell, sometimes moving slow against a faster beat, or in rapid embellishments around a slower beat, but always revealing its inner processes. Its beauty is that Jeyasingh's six dancers seem to claim Purcell as *their* inheritance.

Jeyasingh herself has choreographed *Romance – with footnotes*. But her refined and clever organisation of traditional dance material seldom takes off as sheer dance, or creates a stage world of its own. When Alston uses her dancers, they look girlish, shy, but sharply individual. In Jeyasingh's material, they look like studious, inhibited acolytes.


Mixed cultures: the Shobana Jeyasingh Dance Company

Ballet / Clement Crisp

Assured Beauty

ENGLISH National Ballet has just gained a new staging of *The Sleeping Beauty*. Produced by Ronald Hynd, it is essentially – and wisely – the traditional text which he knew as a premier danseur with the Royal Ballet. There is little innovation – Carabosse flies in and out, with no little panache, on wires; the trick is somewhat minimised by having the Lilac Fairy (in "anything you can do, I can do better" mood) joining the Prince in a similar lift-off at the end of the Vision Scene – and much sensible conservation. Petipa, as I never cease repeating, Knew Best. I would query Hynd's need to bring in an extra Fairy at the Christening, in the cause of symmetry I'd guess, but also of musical crassness, because Tchaikovsky also Knew Best. In much else we recognise the rule of good sense, and affection for a work that is a central truth about ballet itself. The score was very decently played by ENB's orchestra on Monday night in Southampton, where I saw *Beauty* at the Mayflower Theatre, and most significantly, the choreography was set out with commendable clarity by ENB's dancers.

It is some comment upon the work – and the weeding-out – already undertaken by Derek Deane, ENB's new artistic director, that the lacklustre troupe we have been watching during the past few years has been so transformed. There is brightness and assurance to the work of the corps de ballet, and the Prologue's fairy variations were far more secure as expositions of classic style than anything the company showed us under the previous regime. If Deane can thus inspire his artists after a few months, we have much to look forward to. Such a masterpiece as *Beauty* will either enhance or utterly destroy its interpreters, but Hynd's love for the ballet, and Deane's sense of performance standards, have put the company on its mettle.

The design is by Peter Docherty. He has provided a setting of soaring pillars set against sky-scapes that suggest seasonal moods, with golden-leafed branches which feature significantly and beautifully in the action. The visual effect is most poetic in the Hunting scene and the Awakening: autumnal magic is potent.

About his costumes I have certain reservations, more to do with fabric than cut or shape, for he follows the correct historical progress from Louis XIII to Louis XIV, and the Watteau-esque designs for the Hunt are splendid. But modern artificial fibres have an unnatural sheen, unvarying and unresponsive to light. They blare, and the solid blocks of courtiers in blue and acid aniline green in the Prologue, the lurking presence of lurex in gleaming bodices, do not give that feeling of impossible luxury and Versailles' elegance vital to *Beauty*'s power.

The company performances are commendable because testimony to serious work and serious coaching. Hynd has made a charming trio for the third act jewels, well done by Josephine Jewkes, Graham Rowe, Stephen Sherriff, and I saw very neat Bluebirds from Yet Sen Chang and Ambra Vallo. Carabosse was well and malevolently played by Kevin Richmond.

Aurora and her prince were taken by two new recruits: Cecilia Kerche from Brazil, and the Frenchman, Cyril Pierre. Miss Kerche is a secure performer, but I did not think her physique or her temperament revealed her as one of nature's Auroras. The ultimate and glorious demands of the role – the ballerina as incarnation of a classic ideal – have yet to be met in a reading I found un-nuanced. M. Pierre is a handsome figure and an admirable partner, but he did not show that princely dignity in dancing which makes the last act duet a portrait of a nobleman. The most satisfying performance of the evening came from Evelyne DeSutter, returned to the company after several years, as the Lilac Fairy. Her delicate physique, the elegance of her style are a delight.

English National Ballet plays Beauty in Southampton this week; then visits Manchester (week of November 1), Liverpool (Nov 8), Bristol (Nov 16), Leeds (Nov 22).

Theatre/Malcolm Rutherford

OLIVER Goldsmith's *She Stoops to Conquer* entered the first division of English comedy when it was originally performed in 1773 and has stayed there ever since.

In its new outing, directed by Sir Peter Hall at The Queen's, it is playing at the very top, along with the best productions you can remember of (say) *The Importance of Being Earnest* or *A Midsummer Night's Dream*. The subtitle is *The Mistakes of a Night* which must have been picked up from Shakespeare, and Wilde plainly learned from it.

The play's strengths are its dialogue, its characters and even its plot: in short, everything you could ask for. Scarcely a word is wasted and it is remarkable how many of its lines remain colloquial to this day: "This is Liberty Hall", for example.

Goldsmith also had a wonderful way with names: not only Tony Lumpkin, the young bumpkin of a squire, but also Diggory, the man taken in from the barn to serve in the house.

In Hall's production there are at least three characters who are outstandingly drawn. Joint top are quite exceptional performances by Tom Beard as Marlowe and Emily Morgan as Kate Hardcastle. Marlowe is the well-bred man who has a way with women provided they come from beneath the stairs, but lapses into a Feydeau-like stammer when confronted by a girl of his own class. Beard plays him as if he is the star of the show. Perhaps he is.

Even Beard, however, would not be so good without Ms Morgan beside him. Her Kate is the reverse of Marlowe; she can't win him as her real self, so pretends to be the maid. Scenes of mistaken identity are frequent, hilarious, and exquisitely timed.

It may seem odd to concentrate on that pair when Donald Sinden is also in the cast, yet he seems happy enough to take a slightly secondary role in such company.

As Hardcastle, the genial father of Kate, he has a little trouble with his wig; in the second act it fell off. But it is a pleasure to hear his plummy voice again and to watch his magnificent stage presence.

"I love everything that's old," he says, "old friends, old times, old manners, old books, old wine." And, in this performance, that's the way it is.

There is a special delight towards the end when the late entrant, Sir Charles Marlowe, is played by Donald's brother, Leon. Watch them looking out from behind the screen together. Every theatrical device is there.

Queen's Theatre 071-494-5040

INTERNATIONAL ARTS GUIDE

■ BONN

Oper Tonight: *Valery Panov's* production of Prokofiev's ballet Romeo and Juliet. Tomorrow: Werther. Fri, next Tues: Lortzing's Der Wildschütz. Sat: Cav and Pag. Sun: Ken Russell's version of Salome. Mon: Otello, with a cast led by Vladimir Atlantov and Renato Bruson. Nov 14: first night of new production of La Fanciulla del West (0228-773667)

■ BORDEAUX

Palais des Sports Tonight and tomorrow: Karl Anton Rickenbacher conducts Orchestre National Bordeaux Aquitaine in Chopin's Second Piano Concerto (Eugene Istomin) and Bruckner's Ninth Symphony (5648 5854)

■ COLOGNE

Opernhaus Tonight, Tues: TanzForum triple bill, choreography by Jochen Ulrich (in repertory till Nov 19). Tomorrow, Mon: Michelangelo Veltri conducts Tosca with Galina Kalinina, Mario Malagnini and Alain Fondary (in repertory till Nov 23). Fri: Ann Murray song recital. Sat: Billy Budd with Boje Skovhus in the title role and Victor Braun as Claggart (in repertory till Nov 27). Sun: René Jacobs conducts L'incoronazione di Poppea, with Patricia Schuman, Kathleen Kuhlmann, Jeffrey Gall and Curtis Rayam (0221-221 8400)

■ COPENHAGEN

Royal Theatre Tonight, Sat, next *Mon:* Alexander Gibson conducts David Radok's new production of Peter Grimes, with Stig Fogh Andersen, Tina Kiberg and Norman Bailey (also Nov 5, 11). Tomorrow, Fri, next Tues: three Balanchine ballets (tel 3314 1002 fax 3312 3692)

■ DUSSELDORF

Deutsche Oper am Rhein Tonight and Fri: La Cenerentola. Tomorrow and Sun: Der fliegende Holländer. *Sat: first night of new production* of ballet mixed bill, choreographies by Balanchine, Van Manen and Spoerli (repeated Nov 1, 6, 12, 13). (0203-300 9100)

■ FRANKFURT

Oper Tonight, Sun: Sylvain Cambreling conducts Peter Mussbach's new production of Wozzeck, with Dale Duesing and Kristine Ciesinski. Tomorrow and Sat: Cosi fan tutte. Fri: Il barbiere di Siviglia (069-236061)
Alte Oper Tonight: Heinrich Schiff, accompanied by Tzimon Barto, plays cello sonatas by Debussy, Franck and Beethoven. Next Tues: Leonard Slatkin conducts Saint Louis Symphony Orchestra in works by Claude Baker, Beethoven and Richard Strauss, with piano soloist Rudolf Buchbinder. Nov 5: Jessye Norman (069-134 0400)
Jahrhunderthalle Fri: Alban Berg Quartet, pianist Rudolf Buchbinder, plays chamber music by Janacek and Dvorak. Sat: Herbert Blomstedt conducts Bamberg Symphony Orchestra and Bavarian Radio Chorus in works by Brahms and Janacek (069-360 1240)
English Theater Kaiserstrasse Edward Taylor's thriller Murder by Misadventure, daily except Mon till Nov 20 (069-2423 1620)

■ GOTHENBURG

Konserthuset Tonight: Rudolf Werthen conducts I Fiamminghi in works for chamber orchestra, including Elgar's Serenade and Britten's Frank Bridge Variations. *Tomorrow:* Hagen Quartet plays works by Schumann, Stravinsky and Mozart. Sat: Musica Vitae chamber orchestra plays Lutoslawski, Haydn, Leo Weiner and others. Next Wed, Thurs: Neeme Järvi conducts Strauss and Stenhammar (031-167000)
Stora Teatern Tonight, Fri, Sun: Robert North's new ballet The Russian Story, music by Tchaikovsky and Shostakovich. Sat: Gabriele Bellini conducts first night of Sonja Frisell's new production of Rigoletto (031-131300/ 031-136500)

■ HAMBURG

Staatsoper Tonight, Sun: Gerd Albrecht conducts Gunter Krämer's new production of Götterdämmerung, with Gabriele Schnaut, Siegfried Jerusalem, Matti *Salminen and Günter von Kannen.* Tomorrow; ballet mixed bill, choreographies by Lubovich, Ek and Neumeier. Fri, next Wed: Neumeier's version of Swan Lake. Sat: Die Zauberflöte. Next Tues: Il trovatore with Julia Varady, Lando Bartolini and Giorgio Zancanaro. (040-351721)

■ LYON

Opéra Tonight, Fri, Sat (also Nov 3, 5, 7): Maguy Marin's production of Coppelia. Tomorrow, Sun: Kent Nagano conducts Louis Erlo's Offenbach adaptation, Des Contes d'Hoffmann, with a cast led by Daniel Galvez-Vallejo, José van Dam, Gabriel Bacquier and Isabelle Vernet (7200 4545)

■ MUNICH

EUROPAMUSICALE
Throughout October, orchestras from more than 30 countries have been visiting Munich as part of a festival aimed at giving a sound-picture of Europe's cultural diversity. The festival comes to an end over the next five days with orchestras from Ireland, Austria, Romania, Switzerland and Estonia. Most concerts take place at Gasteig. Tonight: RTE Concert Orchestra of Dublin plays works by John Field and Hamilton Harty. Tomorrow: Seiji Ozawa conducts Vienna Philharmonic Orchestra in Haydn, Bartok and Dvorak. Fri: Horia Andreescu conducts Romanian National Radio Orchestra in works by Enescu and other Romanian composers. Sat: Armin Jordan *conducts Orchestre de la Suisse* Romande in works by Eric Gaudibert (b1936), Bartok, Debussy and Ravel, with piano soloist Martha Argerich. Sun morning: Estonian State Symphony Orchestra plays Tubin, Pärt and other Estonian composers. Sun evening: closing gala with European Community Youth Orchestra and Bavarian State Opera Chorus, plus vocal soloists including Teresa Berganza, Francisco Araiza, Edita Gruberova and Yevgeny Nesterenko (089-4809 8614)

BAVARIAN STATE OPERA
Tonight, Sat, next Wed: La boheme. Tomorrow: John Cranko's ballet The Taming of the Shrew. Fri: Salome with Mara Zampieri and Ekkehard Wlaschiha. Sun: Minkus' ballet Don Quixote, production by Ray Barra. *Mon: Le nozze di Figaro.* Tues (Prinzregententheater): Waltraud Meier song recital (089-221316). The company's new intendant, Peter Jonas, and music director, Peter Schneider, outline policy tomorrow evening at Gasteig in conversation with Munich critic Wolfgang Schreiber (089-4809 8614)

OTHER EVENTS
New York Harlem Theatre presents Porgy and Bess daily except Mon at Deutsches Theater (089-5523 4360). Kammerspiele has a new production of Thomas Bernhard's play Am Ziel, and repertory also includes Shakespeare's Much Ado About Nothing and King Lear (089-2372 1328). Residenztheater has new productions of Shakespeare's The Taming of the Shrew, Ibsen's The Wild Duck and Chekhov's The Cherry Orchard (089-225754)

■ OSLO

Konserthus Tomorrow, Fri: Eduardo Mata conducts Oslo Philharmonic Orchestra in works by Revueltas, Chavez and Dvorak, with violin soloist Emanuel Borok (2283 3200)

■ STOCKHOLM

Konserthuset James Judd conducts Royal Stockholm Philharmonic Orchestra tonight and tomorrow in works by Frumerie, Bartok, Ravel and Janacek, with violin soloist Kurt Nikkanen. Sat afternoon: Hagen Quartet plays works by Haydn, Janacek and Schumann. Nov 7: Itzhak Perlman violin recital. Nov 11-20: Penderecki festival (tickets 08-102110 information 08-212520)
Royal Opera First night tomorrow of Knut Hendriksen's new production of La traviata, conducted by Marco Guidarini, designed by Ralph Koltai, cast led by Lena Nordin (repeated Oct 30, Nov 1, 3, 5, 13, 16, 18, 20, 22). Repertory includes Cosi fan tutte, Elektra and Beryl Grey's production of Sleeping Beauty (tickets 08-248240 information 08-203515)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Super Channel: European Business Today 0730; 2230
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Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: *Financial* Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Edward Mortimer

No news is bad news

In the absence of TV cameras, victims of aggression can be left to suffer

Mr Douglas Hurd should be pleased. For months the British foreign secretary has been trying to persuade the world to forget about Bosnia. While brilliantly exploiting the presence of British troops "on the ground" to dissuade anyone else from trying to help the Bosnian government defend itself and its people, he has made it clear that in his view sending troops there at all was a rash policy, forced on the government by the media.

Visibly irritated by pressure to take a less neutral line, Mr Hurd has repeatedly mused aloud on the arbitrary spotlight that the media shine on some conflicts while neglecting others. He seems to take a morbid pleasure in enumerating all the other places in the world where wars are going on. "Why bother me with Bosnia," is his implicit message, "when this sort of unpleasantness is really quite normal? Tell us more about Tajikistan, or Georgia, or Angola, where things just as horrible are happening."

Mr Hurd should be pleased now because, in terms of media attention, the war in Bosnia is almost over. We hear about it mainly in the past tense, as an episode which poisoned relations between Europe and the US during the summer, and which both sides are now trying to put behind them.

But it is not over. It is as bad as ever. Sarajevo is still being remorselessly pounded by Serb shells. Its people are down to two or three hundred grammes of food a day (less than half what the UN considers a minimum). Winter is nearly here, but they have no fuel left and precious little shelter. The situation in other supposedly UN-protected "safe areas" is even worse. Thousands will freeze to death before they starve, though in many cases it may be a moot point.

In early August, Nato threatened air strikes if the "strangulation" and shelling of Sarajevo and other "safe areas" continued. But last week Nato defence ministers met, and air strikes were not even on the agenda. At least they had the honesty not to utter any more empty threats. They did not have to, because Bosnia is no longer headline news.

The precedent for Bosnia was Kurdistan. Television pictures of the exodus from northern Iraq triggered western military intervention in April 1991, just as film of Bosnian Moslems in Serb concentration camps triggered the "humanitarian" UN operation in Bosnia last year. But the latter has been a feeble affair compared with the former. Saddam Hussein has by and large left the Kurds alone, because military action has taught him to take western warnings seriously. The Serbs and Croats in Bosnia have learnt the exact opposite.

Even the Kurdish "safe haven" is still subjected, absurdly, to UN sanctions directed against Saddam's regime. But the Kurds are not Saddam's only victims. What he has done to the Shia population in the south, especially since the abortive uprising that immediately followed the Gulf war, is just as bad. But Hurd's Law applied. There were no TV cameras in southern Iraq during the uprising, and therefore no serious pressure on western governments to intervene.

Thousands of Bosnians will freeze to death before they starve

Very late in the day, that omission was partially rectified last night, with the screening on British independent television of a documentary, *Saddam's Killing Fields*, made by historian Michael Wood. It included amateur video of the holy city of Kerbala, as Saddam's tanks moved in on it, and showed the more recent draining of the marshes into which the refugees fled. This has destroyed hundreds of villages and the entire way of life of the Marsh Arabs. Saddam used all his usual methods, including, it now appears, chemical weapons.

Mr Hurd is right. Atrocities are not unique to Bosnia, or even Iraq. But what makes Bosnia and Iraq unique is the specific, undischarged responsibility of western powers, including the UK in both cases.

The Shia uprising in Iraq was a direct consequence of the Gulf war. It happened virtually within sight of the victorious coalition forces, but they did not lift a finger, nor did their political leaders utter a word, to deter Saddam's forces from suppressing it. Much later, a "no fly zone" was proclaimed in southern Iraq, but Saddam has been able to continue his ruthless work without using air power. Only the threat of allied action against his ground forces could create a "safe haven" in the south comparable with that in the north. Then a provisional government for both north and south could be established and recognised, which would be a big step towards the liberation of the whole country.

As for Bosnia, it was virtually obliged to declare independence by the EC's recognition of Croatia and Slovenia. But the EC – with Britain in the lead organising peace conferences and supplying their chairmen – has prevented it from obtaining weapons to defend itself and has extracted concession after concession from its leaders as the supposed price of an imaginary peace. Now there is talk of reconvening the London conference, which last year reached "agreement" on various principles. None have been acted upon.

No doubt a peace conference will be needed eventually, but right now the Bosnians need a massive airlift of food, fuel and shelter materials to Sarajevo, and convoys that get through to the smaller enclaves. That in turn means that those who want to help must be prepared to use force, from the air or on the ground, against those who themselves use force to prevent supplies getting through.

But the west, including Britain, now seems resigned to leaving southern Iraq in the grip of Saddam Hussein, while Bosnia freezes and starves to death. No wonder Mr Hurd is relieved when the media turn their attention elsewhere.

Sir Leon Brittan argues that EC convergence can be achieved without narrow ERM bands

Time to retune for Emu harmony

The special European Council meets on Friday to mark the entry into force of the Maastricht treaty on November 1. Some people would have us believe that this should be more of a wake than a christening. They would argue that the crisis in the exchange rate mechanism, resulting in August in fluctuation bands of plus or minus 15 per cent, has set back the cause of exchange rate co-operation and the single currency by many years, if not indefinitely.

Such a view overlooks the strong commitment most governments still have to European monetary union. The extent of this commitment can be seen in the absence of any moves by European governments to "make the most" of the wider bands by cutting interest rates and letting their exchange rates depreciate.

The temptation to do this at a time of recession is obviously considerable. So why have they not done so? The only credible explanation is that they are still determined to proceed to stage three of Emu and the creation of a single currency, and that this approach is indivisibly associated in the minds of governments with maintaining priorities as close as possible to their old, narrow 2.25 per cent fluctuation bands.

There are, however, dangers in sticking to this policy. The longer that monetary policies remain too tight for domestic economic recovery to take place, the more damaging the effects on the economy. In turn, the longer recession lasts, the greater the reduction in demand for currencies of stagnating economies. Moreover, in most European countries, budget deficits are high, leaving governments little room to manoeuvre their economies out of recession by stimulating demand.

The time is therefore right for some policy rebalancing towards looser monetary and tighter fiscal policy, with two crucial provisos. First, monetary policy should only be loosened in those countries where it is so tight, in relation to underlying economic circumstances, that it can be loosened without any risk of fuelling inflation. Second, policy moves in this direction should take place in the context of a European consensus on the extent and manner in which it could be done. It would, of course, still be up to each country to decide whether and how it wished to take such action.

For governments to adopt such an approach, they will have to be persuaded that attaining Emu does not depend on sticking as closely as possible to the former narrow bands. They will have to be persuaded that it is possible to have a sound monetary policy without relying exclusively on the external anchor. It will also mean overcoming the fears in many quarters about the dangers of excessive volatility if member states decide to use their new freedom to permit substantial movement in exchange rates. This could damage the single market in manufactured and agricultural goods as well as economic co-operation between member states. This is why any greater flexibility must be exercised within an agreed framework, which would not encourage competitive devaluations but only permit interest rates to be lowered where domestic monetary conditions justified it.

Friday's Council meeting provides an opportunity for such a framework to be put in place, and for the road to Emu to be redefined in a way that takes account of changing circumstances and that will also help a number of economies to move out of recession.

As a minimum, the Council must agree on the site of the European Monetary Institute, which will oversee stage two of Emu, and appoint its head. But this is not enough: it would enable Europe to comply only with the letter of the treaty, not with the spirit, and would not represent a move closer to a single currency in itself. Heads of government therefore also need to encourage the sort of changes in European economic management, which I have outlined, to take place.

They should not just restate their commitment to Emu, but take action to make it more likely. They should use the fact that stage two of Emu begins in January to strengthen policy co-ordination in compensation for the wider bands. The Maastricht treaty establishes that it is a key task of the EMI in stage two "to strengthen the co-ordination of the monetary policies of member states with the aim of ensuring price stability". It also says that member states shall regard their economic policies as a matter of common concern and should co-ordinate them.

The European Council should therefore commission from EC economic and finance ministers (Ecofin), for the December summit, an outline economic strategy for member states and the Community as a whole, which provides enough flexibility to allow member states to rebalance their policies as necessary, while also reinforcing their co-operative nature.

Ecofin could help this to happen by agreeing an overall target inflation range. Member states could then express this in terms of individual money supply growth limits which would act as an intermediate target in place of the exchange rate. ERM participants will then find in many cases that their present rate of monetary growth will justify much-needed interest rate cuts, without injecting inflationary pressures into the economy.

This regime has a number of advantages, notably flexibility, since each member state will be able to follow the monetary targets it considers most appropriate, within the agreed overall discipline. Additional discipline will stem from the fact that the EMI, alongside the council, could provide a forum for discussion which would help to add further credibility to the pre-announced targets. In many ways this sort of scrutiny would be a natural extension of existing arrangements for submitting convergence programmes.

Nonetheless, fears about exchange rate volatility and the impact that could have on intra-EC trade are not to be discounted. It is understandable that member states should not want to trigger such volatility by interest rate cuts, but it is far from clear that exchange rates will move more erratically as a result of looser but informally co-ordinated monetary policy. Interest rate actions would once again be taken on the basis of a publicly announced anchor. And the maintenance of the present informal policy of sticking close to the old narrow bands is not likely to be a permanently viable option.

This alternative that I suggest would mean that there would probably be changes in the current central parities within the ERM. But, quite apart from the fact that that would help some countries to move out of recession, it would paradoxically bring Emu nearer, rather than push it further into the distance. In the first place this approach would promote closer monetary and economic policy co-ordination, which is an essential prerequisite for the move to Emu. But in addition the new parities that would emerge from such a policy would be more firmly based on economic fundamentals than the present ones. As such, they could be more stable and realistic.

They would also lend themselves to an earlier return to narrow bands if that is desired, although a return to the narrow bands should no longer be seen as a necessary precondition for the final move to a single currency.

Before the recent upheavals it seemed reasonable to regard the gradual freezing of ERM parities as the best way of achieving Emu. But the principal lesson to be derived from the upheavals is that we were putting greater weight on the ERM than it was ever intended to bear or was capable of bearing. The ERM was intended by its founders to bring about greater stability but not to prevent realignments when changes in economic circumstances rendered this necessary. The use of an ever more rigid ERM as a way of forcing convergence was tempting but in retrospect doomed to failure.

Convergence must be attained by other means. This will in time lead to more stable exchange rates, based on economic fundamentals and, in due course, for those countries that are ready, the move to a single currency can be decided and implemented directly, without the artificial prop of years of a narrow-band ERM.

The author is the EC trade commissioner

LETTERS TO THE EDITOR

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Relief of poverty should determine aid

From Mr Martin Griffiths.

Sir, The distorting impact of foreign policy on Britain's aid ("Logic was no match for foreign policy", October 22) comes as no surprise to those of us who recall the government's explicit intention in 1980 to "give greater weight in the allocation of our aid" to political considerations.

In the Reality of Aid report earlier this year, NGOs working with the world's poorest communities noted the World Bank estimate that 40 per cent of world aid was diverted from poverty reduction to middle and high-income countries "largely for political purposes".

The Overseas Development Administration has recently taken a number of important steps to increase its focus on poverty. The forthcoming European Community council of development ministers will consider a proposal to increase the poverty focus of EC aid, initiated during the British presidency.

The record shows that, when the ODA is able to make poverty the priority, British aid can be very effective in areas such as humanitarian relief. The strong and consistent support of the public for UK aid targeted on poverty reduction was echoed in a June 1983 Actionaid/Gallup Survey, which found 87 per cent of MPs wanted more attention to be given in this category of spending to aid for basic needs.

The National Audit Office report shows that the diversion of British aid for foreign policy purposes serves neither the interests of the poorest nor the taxpayer, nor indeed Britain's long-term commercial and political security. The government should end competition between the developmental, political and commercial interests in aid by stating explicitly (in line with the World Bank) that sustainable poverty reduction must be the primary determinant of British aid spending and the benchmark against which its success is evaluated.

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Misguided DTI thinking on attracting investors

From Mr Graham Stringer.

Sir, Having injured Manchester by withdrawing the assisted area status so vital for gaining investment, Tim Sainsbury, the industry minister, has added insult by suggesting to the Association of Metropolitan Authorities that cities should stop promoting themselves abroad. He wants them to subjugate themselves to regional development organisations.

He wrote to the association on July 19, saying: "It is far better for local interests to concentrate on getting the product right, by the provision of suitable sites and infrastructure, so that they can convert investor inquiries into local success, and to contribute to the overall regional message put out by the RDO."

This would be an outrageous limitation, particularly when the government's inward investment campaign is under fire for stressing Britain's low wages rather than the positive advantages of our main cities.

Most of Manchester's foreign investment flows from local strengths and local enterprise. US cinema giant UCI, for example, has taken office space in Manchester because of the city's airport link to Los Angeles. And no doubt cities such as Liverpool and Birmingham could cite similar cases.

Meanwhile, the Department of Trade and Industry's Invest in Britain Bureau is not bringing home much bacon. Not one of the hundreds of cases handled by the bureau last year resulted directly in a company coming to Manchester.

Mancester City Council runs its own Manchester Campaign with Manchester Airport and the Central Manchester Development Corporation, and its business promotion brochure has already sparked investment interest in Japan, the US and Europe. These same investors find it bizarre that the government's promotion machine has nothing to say about Manchester.

Britain's great cities need to advertise their strengths abroad. And until the government understands the importance of these cities to the nation's economy, that economy will remain weak. As weak as Mr Sainsbury's ideas on the subject.

Graham Stringer,
leader of the city council,
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Democratic credentials in South Africa

From Mr Anthony McCall-Judson.

Sir, Joe Rogaly's assessment of the South African scene displayed some familiarity with the subject. But his lofty assertion that the newly formed Freedom Alliance's leaders (Inkatha, Conservative party, Afrikaner Volksfront, Bophuthatswana and Ciskei) have poor credentials as democrats cannot pass without comment.

I will not attempt to claim that Africa produces state-of-the-art, western-style democrats. But, as many well-informed South Africa correspondents, human rights campaigners (including Helen Suzman) and political commentators have observed, the two most blatantly undemocratic organisations in South Africa are the ANC-South African Communist party alliance and the ruling National party. It is difficult to determine which of them has the more shameful human rights record or which, in the past, had the firmer resolve to squash free speech or criticism.

Many now feel the ANC-SACP alliance is the greater offender, since left-wing "censorship" is now so virulent. Either way, one wonders what on earth Joe Rogaly is trying to say. He cannot be implying that Nelson Mandela's or President F W de Klerk's democratic credentials are impressive, can he? They are both good public relations men, not democrats.

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Time for a long overdue change

From Mr Michael Henderson-Begg

Sir, Once again we have put our clocks back to British winter time and face darker evenings, more road accidents involving children and time disalignment with the rest of Europe.

With rising commuter fares and falling transport infrastructure investment, this appears to be another government attempt to erode London's standing as Europe's main financial centre.

Has the time not come for our clocks to be permanently aligned with those of almost all of western Europe, namely central European time?

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Pensioners and their needs will not go away

From Mr Richard Thomas.

Sir, John Willman ("Welfare versus wealth of nations", October 25) is right to identify the challenge to policymakers of an ageing population. But he seems to have fallen into the same trap as many governments, which think washing their hands of the problem – by reducing state provision – will mean it goes away. Pensioners will still be there, even if they do not all appear on government accounts.

I am agnostic on the public/private divide. Ends are more important than means. Pension provision should be efficient, equitable, comprehensive and secure, and whichever mechanisms serve these objectives best should be employed.

But, whatever their role in terms of actual provision, governments must ensure these objectives are met. New mechanisms are to be encouraged. Abandoning the principle of public responsibility is not.

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Canadian landslide

THE "FIRST-past-the-post" electoral system can produce bizarre results when more than two parties get significant shares of the vote, especially if some of them have supporters scattered throughout the country while others have solid regional strongholds. Witness the fate of the Progressive Conservative party, which until yesterday formed the government of Canada but now finds itself reduced to a mere two seats in the House of Commons.

Unquestionably, the Conservatives would have lost the election under any system. Yet they actually won a larger share of the total vote than the Bloc Québécois, which with 54 seats will now form the official opposition, and about the same share as the Reform party which won 53 seats, almost all in the western provinces of Alberta and British Columbia.

It would therefore be wrong to take the apparent annihilation of the Tories at face value, or to assume that it will be permanent. They retain control of two provincial governments and half the seats in the upper house. They remain the natural political home of Canada's business elite, and the only party which can credibly present itself as a nationwide alternative.

Ms Kim Campbell, the outgoing prime minister, who lost her own seat, cannot escape responsibility for her party's debacle. No doubt the main factor was Canada's floundering economy, with unemployment at 11.2 per cent. But Ms Campbell succeeded by an inept campaign in turning defeat into headlong rout. Since one of her main blunders was to warn that unemployment would stay high until the end of the century, the sad lesson is that democracies do not reward leaders who tell them unpalatable truths.

Familiar dilemma

The incoming Liberals present themselves as economic "pragmatists" somewhat in the Clinton mould. Mr Chrétien is pledged to create jobs by pumping money into the economy, but his room for manoeuvre is limited by the markets. The federal deficit is already large, and if the new government risks increasing it by any significant fiscal stimulus it will either have to increase interest rates or let the dollar slide. It is a familiar dilemma, which will probably make for less spectacular changes in economic policy than electoral rhetoric suggested.

Similarly, not too much should be made of the danger to the North American Free Trade Agreement. There is a strong free-trade wing within the Liberal party, which would not be happy if Mr Chrétien risked scuppering the treaty with unrealistic demands for renegotiation. He will no doubt ask for "clarification" on certain issues such as anti-dumping and dispute-resolution. Perhaps he will even take a leaf out of Mr Clinton's book and ask for one or two symbolic "side agreements". But the fate of the treaty as a whole will be decided not in Canada but in the US Congress.

Firmly committed

Most interest will focus on the constitutional consequences of Monday's vote. It is certainly not an outright victory for separatism. The Liberal party, which won seats in all 10 provinces, is if anything even more firmly committed to the federation than were the Conservatives; and the victory of Mr Lucien Bouchard's Bloc Québécois (BQ) in Quebec should be seen as an expression of protest rather than a settled determination to secede.

More ominous, perhaps, is the victory of the Reform party in the west, reflecting in part a mood of exasperation with Quebec's insistence on special treatment. The Liberals may feel they have to cater for this mood by a more rigid federalism, which in turn would provide the BQ with new grievances to play on. Mr Bouchard could yet be propelled into independence on a wave of English-speaking impatience.

All in all the result reflects the worldwide reassertion of national or communal identities in the face of globalising economic and cultural trends. The Liberal victory is in part an expression of Canadian nationalism, faced with the economic dominance of the US, while the BQ represents a French-speaking particularism that would rather deal directly with Washington or New York than have to work through Ottawa. European spectators should feel at home.

How to pluck the geese

SUPPOSE THE UK chancellor decides that a further fiscal adjustment, beyond that left behind by Mr Norman Lamont, is indeed required. How should he go about it? How far, in particular, can he rely on cuts in public spending, rather than increased taxation?

The answer is that he will be forced to rely on taxation. As the Green Budget from the Institute for Fiscal Studies demonstrates, the government would be doing well even to keep to its announced targets for public spending. This is so for three reasons.

First, on the government's forecast of inflation, the real growth of the new control total, which covers supposedly non-cyclical public spending, is set at less than 2 per cent in each of the next four financial years. This is less than the growth of total public spending in the recovery years of the last cycle, even though Mrs Margaret Thatcher was then in charge and the government's majority was much larger.

Second, most of the programmes that were easy to cut have already been severely trimmed. Thus 72 per cent of general government expenditure is now accounted for by social security (29 per cent), health (15 per cent), education (12 per cent), defence (9 per cent) and debt interest (7 per cent). Debt interest is bound to rise. Defence spending is already set to fall to just over 3 per cent of GDP by 1995, well below previous levels. Any "cuts" elsewhere are likely to be absorbed in those self-same programmes. In the case of health, for example, present plans are for increases in real spending of 1 per cent a year. Such a low rate of increase is virtually inconceivable.

Manifesto commitments

Finally, some important programmes are protected by manifesto commitments: to increase the level of real resources in the National Health Service year by year, for example, and to preserve child benefit.

This does not mean that it would be impossible to cut public spending, even drastically. But it would be possible only if the government were to make radical changes in politically sensitive areas. With Mr Major as prime minister and Mr Clarke as chancellor, that will not happen, bar the far from inconceivable onset of an overwhelming fiscal crisis.

For the moment at least, adjustment will have to come on the side of taxation. This "political" chancellor is likely to see the desirability of announcing the bad news now, even if additional taxes are once more to come into effect in future years. He will want to introduce measures that are neither too visible nor too inflationary. He will also want measures that can be presented as part of a desirable fiscal reform (though Mr Lamont's attempt to portray VAT on fuel as an environmental measure was notably unsuccessful). Ideally, the chancellor would in fact have radical reform in mind, though there is little reason to suppose he does.

Splashy ways

If good performance of the economy were to allow announced tax increases to be "given back" in subsequent years, the chancellor could always oblige. He would want to do that in splashy ways. What would be most undesirable would be for increases in distorting, but less visible taxes, such as national insurance contributions, once again to be used to finance cuts in less distorting, but more visible taxes, such as income tax.

The Green Budget notes many ways of raising revenue. The tax value of personal allowances could, for example, be restricted to the 20 per cent rate, which would raise £5.7bn; allowances and thresholds could be frozen at current real levels, which would raise £1bn; mortgage interest relief could be phased out, which would raise £3bn-£4bn; advance corporation tax and the tax repayable to tax-exempt shareholders could be reduced from 20 per cent to zero, which would raise £3bn; and standard rate VAT could be imposed on zero-rated goods (excluding housing), which would raise £10.7bn (but increase consumer prices by 3.7 per cent), while a 5 per cent VAT would raise £3.1bn.

None of these options would be popular. Some would be both unpopular and retrograde. Restrictions on allowances and thresholds would probably be the least painful and the least damaging.

Whatever Mr Clarke does, the geese will hiss. But he has no prudent alternative. They will have to be plucked once again.

Oil groups are launching costly schemes to refurbish their ageing offshore platforms, writes **David Lascelles**

Mid-life crisis in the North Sea

Mr Rob Holland is a superintendent with AOC International, an offshore construction company. He and his work crew recently spent a month dangling on scaffolding beneath the Brent Bravo oil platform in the North Sea, welding a 100ft steel beam to its underside. The beam was so heavy that it had to be split into five sections and manhandled into position with block and tackle.

The work was the start of what is likely to be one of the most ambitious engineering projects undertaken in the North Sea.

Shell and Esso, joint owners of the 17-year-old Brent field, the largest in the UK sector, are trying to extend its life beyond its 1998 expiry date with a £1.3bn project to re-pressurise the wells and modernise three of its four production platforms.

According to Mr Walter van der Vijver, manager of the Brent fields in Aberdeen, this plan – if it works – should add 10 years to Brent's life and enable it to produce additional oil and gas equivalent to the output of a small to medium-sized North Sea field. He describes it as "mid-life crisis work".

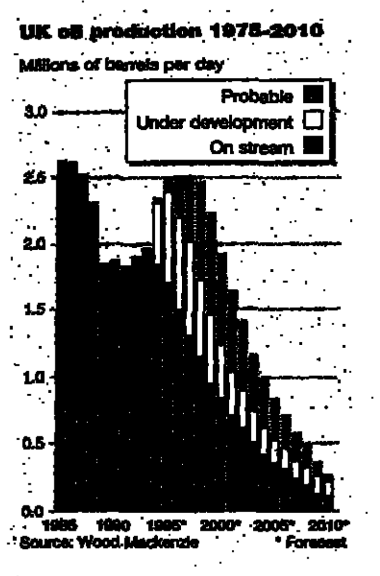
The Brent project is a striking example of what many see as a new stage of life for the North Sea. With more than a quarter of a century of production behind it, its installations are showing their age and forcing oil companies to decide whether to invest in extending their lives. Mr David Black, who analyses North Sea developments for Wood Mackenzie, the stockbroker, says: "There is a realisation now that some fields which have been around for some time still have useful life left."

Decisions are being influenced by a number of factors. The most pressing is the weak oil price, now close to its lowest point in real terms since North Sea production started, which is prompting greater financial rigour.

In spite of the substantial cost of redeveloping Brent, Shell believes that it will yield significant gains in efficiency: manpower offshore will be reduced by up to a half which, in turn, will sharply reduce the cost of servicing and supporting platforms. Shell calculates offshore labour costs at £60 an hour. According to Mr Van de Vijver, the Brent plan has been successfully tested against oil at $15 a barrel, compared with its current price of $16.30. "And even if it fell to $12, we'd go ahead," he says.

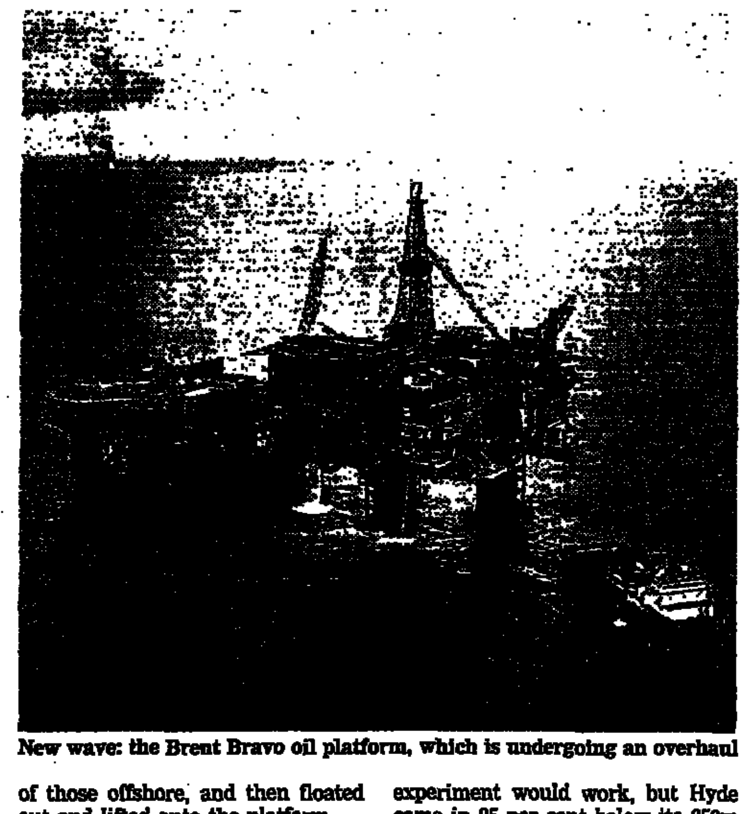
Unfortunately, the characteristics of Brent oil are unique, so other fields cannot be given the identical treatment. But rapid advances in technology and greater cost-awareness have opened up other prospects.

A different technological approach was adopted at Scott, a new field which came into production earlier this year. Cost savings were achieved by pre-drilling the wells and locating as much well-head plant as possible on the sea floor rather than on the platform. This enabled Amerada Hess, the US operator, to complete in only four months start-up work that would normally have taken more than a year, and will lead to reduced manning, according to Mr Rex Gaisford, director of projects.



In some fields, manning reductions are being taken much further. Shell is planning to reduce the number of men at its giant Leman gas field in the southern sector of the North Sea from more than 100 to only a handful by 1996. It has also commissioned a study from Kvaerner, the Norwegian offshore constructors, for a new type of platform that would be unmanned, and would only need to be visited by a support vessel once a year.

Although new seismic techniques and sophisticated drilling and oil recovery technology tend to attract the most attention, one of the most significant advances offshore was the development of floating cranes, capable of lifting loads of more than 10,000 tonnes in one go, compared with 1,000 tonnes previously. Thanks to floating cranes, installations containing complex plant and machinery can now be assembled onshore where costs are a fraction of those offshore, and then floated out and lifted onto the platform.



New wave: the Brent Bravo oil platform, which is undergoing an overhaul

Cost consciousness has even forced changes in the relationship between North Sea platform operators and their contractors – traditionally an area where the oil companies kept the benefits of greater efficiency to themselves, excluding others from sharing in them.

In what is likely to be a pioneering change, the operators and contractors in the newly opened Hyde gas field formed a partnership where any savings in development costs were shared out among the five members. Normally, the operators would hire the contractors at a fixed rate, which gave them an incentive to make a high-priced tender for the work.

Mr Chris Rhodes of BP, one of the two oil companies involved (the other being Statoil of Norway), says: "We felt there was something to be gained from a different relationship with the contractors, one that would take costs out rather than take them in." There was scepticism in the industry that the experiment would work, but Hyde came in 25 per cent below its £50m budget, and Mr Rhodes estimates that three-quarters of these savings were due to the arrangement.

According to estimates by Wood Mackenzie, new technology and organisational methods have halved production costs in the North Sea. At old platforms these range between £3.50 and £5.50 a barrel, at new ones only £2.50.

Shifting patterns in energy use, particularly the growing popularity of natural gas, have also played a part. Once flared off as a useless by-product, gas is now making marginal fields viable, and is likely to overtake oil as the North Sea's leading product within the next 10 years.

The other factor shaping developments is the attention to safety since the Piper Alpha disaster in 1988, in which 167 men died. This greater focus on safety is reflected at the newly opened Piper B platform, which stands less than half a mile from the yellow buoy marking the site of its ill-fated predecessor.

Compared with the untidy jumble of older platforms, Piper B has a sleek, space-age look. Its most dramatic features are the eight aluminium lifeboats jutting out of the side, ready to nosedive 80ft into the sea in an emergency. The platform layout puts personal living quarters at the opposite end from the oil and gas facilities – and shielded by fire-resistant walls.

The platform cost £1.5bn. But its sophisticated controls mean that operating costs will be lower than Piper Alpha's – as little as £2.50 a barrel, according to Mr Michel Romieu, chairman of Elf Enterprise Caledonia, the operator.

But this willingness to invest large sums of money in order to achieve long-term savings is relatively new to the North Sea. Dr Chris Fay, managing director of Shell UK, says: "We used to measure things by their capital cost; now it's by their lifetime cost." This change has had a profound influence on planning, and means that new equipment in the North Sea is of higher quality – the extra cost being justified by the fact that it should last longer.

A further stimulus to this growth was the government's decision in the last Budget to change the way North Sea oil is taxed so as to give greater incentives to production rather than exploration, reflecting the view that all the big fields have now been found. Although much of the redevelopment work, including Brent, was launched before the change was announced, there is now a stronger incentive for the owners of the largest fields to invest in extending their lives.

According to the latest estimate from Scottish Enterprise, the economic development agency, some £40bn is likely to be invested in UK North Sea oil production over the next four years, including the development of 70 new wells. This will help output from the sector to rise to a peak of 2.48m barrels a day in 1995, up from some 2m this year, although after that it will start tailing off as fields dry up.

Mr John Browne, chief executive of BP's exploration division, told the Offshore Europe exhibition in Aberdeen last month that BP would be raising its investment by 10 per cent over the next three years. He expects to see his own company's UK production rise by more than 6 per cent as a result.

Mr Browne forecast that new technology and cost reduction could increase North Sea oil recovery by as much as 25 per cent, from 60bn barrels to 75bn (to date some 12bn have been extracted). Other oil executives found those figures over-optimistic. But they do not disagree with the implication that the North Sea should manage to stave off old age for some years yet.

A nationwide identity card scheme in the UK need not discriminate, argues **Ian Davidson**

Taking no liberties

The idea of a limited identity card scheme, now being considered by the UK government as a possible way of combating social security fraud, has provoked a chorus of protests from the civil liberties lobby. It argues, quite rightly, that any such scheme would be discriminatory. Moreover, if such a scheme were to have any chance of being effective in defeating social security fraud, it would have to intrude on the freedom and the privacy of the individual on a horrendous scale.

But the libertarians make a mistake when they go on to argue that the case against this particular scheme is only a limited version of the much larger case against a generalised system of national identity cards. On the contrary, the libertarians grossly overstate the threat to individual liberty which would necessarily be posed by a national identity card, and understate the offsetting benefits that it might confer.

Above all, it seems slightly eccentric to attribute so much virtue to the absence of a system of documentary identification, when there are so many, much larger, defects in our political system which limit the rights of the individual, starting with an unrepresentative electoral system.

The discriminatory nature of the scheme being considered by the government is obviously its biggest drawback. But even if it were limited to the original purpose of fighting social security fraud, its administration would be immensely cumbersome; not just because many millions of people would have to be issued with cards, but because the scheme would have to take account of the fact that a significant proportion of them would be constantly floating in and out of the social security net.

Even if these practical problems were overcome, a simple identity card would not solve the problem. Much of the £5bn reportedly being defrauded from the social security system is not the result of mistaken identity, but derives from the fact that claimants tell lies about their circumstances.

Any identity card which was likely to be useful in preventing that kind of fraud, therefore, would have to be a smart card, which has large amounts of updateable information about the private circumstances of beneficiaries, including their work, income and family.

Both sides of transactions have an interest in being able to establish an individual's identity

Such a card would obviously constitute an outrageous intrusion on the privacy of the individual.

Moreover, the political inspiration of the idea rests at least in part on the illiberal sentiments of the right-wing of the Conservative party. The law-and-order mob within the party cannot be counted on to defend other people's liberty.

The second half of the libertarians' argument holds a good deal less water than the first. It is not at all obvious that the absence of an identity card system provides the British subject with civil protections that are not available to the citizens of France or Germany. On the contrary, it seems obvious that these protections lie elsewhere, in the political system, in the civil society, in the framework and application of law. If our liberties are threatened, it is primarily because these other facets of the social fabric are defective.

The absence of any recognised form of identity is an anachronism which harks back to some mythical, bygone era when society was purely composed of private individuals. The reality today is a mass society where everybody has frequent, multiple and almost unavoidable transactions with different parts of the state system, and in which both sides of those transactions have an interest in being able to establish the identity of the individual. The libertarians try to scare us with the danger that a menacing police force would constantly be stopping people to check their identity cards, but this is just a trumped up bogey. In five years in France I was not once stopped on the street for an identity check, and I never met anyone who was.

In place of this bogey, there may be other cases where an identity card system might actually improve the quality of civil society. Young blacks who could easily prove that they were born in Britain and were not illegal immigrants might be better protected against police harassment; and the rest of us might be better off if Irish terrorists found it more difficult to remain underground. For either of these benefits, I should gladly be prepared for the trivial inconvenience of being required to admit to my identity.

A discriminatory identity card should be unacceptable on civil liberty grounds. But a national identity card system is much less objectionable, and might even offer compensating advantages.

OBSERVER

Absentee policy

■ Suspicions that the Balladur government is cooking up a sternly protectionist policy towards the Uruguay trade round were only confirmed at Chatham House yesterday when Alain Lamassoure, French European Affairs Minister, who was due to address the foreign policy think-tank on the future of the European Community, failed to appear. It fell to the French ambassador, Jean Guiguinou, to read out the text on his behalf.

Full of the die-hard protectionism of the old days, the speech was all the more astonishing because Lamassoure is not merely not a Gaullist – he belongs to the centre-right UDF group – but is generally known for his modern, liberal views. Yet the audience learnt how the single market had unfairly "benefited companies from outside countries more than European firms".

"Europe alone can uphold the rules of fair competition that world trade needs, and which the so-called free traders of America and Japan oppose." No wonder Lamassoure preferred not to deliver the speech in person.

Party on

■ Is Silvio Berlusconi about to form a political party? Judging by Italy's media, or that part which he does not control, Berlusconi has already taken the decision to enter the fray. Proof, if anything so mundane were required, has been seen in a string of speeches offering prescriptions on the state of the nation. More titillating were two interviews in his publications, one with Berlusconi himself, the other with Mario Segni, the leader of the referendum movement. Both appeared to voice identical views on the need to modernise politics, shape up the bureaucracy, and privatise furiously.

Yesterday Berlusconi was trying to pour cold water on his political ambitions; they merely existed in the pages of newspapers, he averred. Seeing he controls 85 per cent of commercial television, he is certainly in an excellent position to back whomever he pleases at the next elections.

Regrets

■ It seems that time is not healing the wounds inflicted when John Major sacked his former chancellor Norman Lamont.

Last night the prime minister hosted a farewell dinner at No 10 for the recently retired Bank of England governor Lord Kingsdown and his wife. Among those invited, naturally enough, were the full complement of former chancellors with whom the then Robin Leigh Pemberton worked during the 1980s.

Lord Howe accepted gracefully, while Lord Lawson conveyed his apologies, explaining he would be travelling in South Africa. Lamont, according to Downing Street, simply made it clear that under no circumstances would he sup at Major's table.

'I'm moving out of left-handed flanges into raves'

Time, gentlemen

■ Spotting that the London Stock Exchange news service, which the Financial Times receives via a direct feed to its Reuters terminal, was offering unusual opportunities for insider trading, Observer rang the exchange.

The fact that announcements timed 11.15 am were arriving at 10.15 am was not the market's fault, sniffed an official who confirmed that its electronic clocks had most certainly been wound back to Greenwich Mean Time over the weekend. The query was referred to Reuters.

"The time codes on your terminal are user-configurable," the global information services company pointed out helpfully, which roughly translated means that you are supposed to twiddle a knob to tune in with whichever of the world's umpteen time zones you happen to be in.

"People forget we are not just in the business of supplying systems to Surbiton," an unsympathetic Reuters spokesman adds.

Match point

■ The demise of brand-name consumer goods at the hands of generic brands may be on every marketing guru's lips these days, but the response by Kellogg's and Coca Cola to the Toronto Blue Jays' victory in the World Series baseball championship shows that the old brand-name giants have not altogether lost their touch.

Within minutes of the Blue Jays hitting the winning home run at midnight last Saturday, the two companies' Canadian subsidiaries were pulling out the stops to bring out special "commemorative" versions of Rice Krispies packets and Coca Cola cans.

Kellogg's plant in London, Ontario, worked all day Sunday to print special Rice Krispies boxes with a congratulatory message to the Blue Jays, embellished with highlights and statistics of the 1993 season. The first of 120,000 cartons were on supermarket shelves soon after lunchtime on Monday.

Coca-Cola had designed its special World Series cans long before the final game. All that remained was to emboss the score, together with those of the previous five World Series games, on the side. The first of 3m cans was filled on Sunday.

Both companies expect their "limited editions" to sell out within a week or two. But how many cereal eaters or cola drinkers will transfer from rival brands?

Titular head

■ Heading the list of the 93 public service organisations receiving the prime minister's award for excellence in delivering public services is the Aberdeen Royal Hospitals NHS Trust.

Among the improvements it has instituted as a result of "patient/user" feed back is the re-introduction of the title Matron. And what was the incumbent called before? "Director of nursing services and quality" says a hospital spokesman.

All that award-winning work notwithstanding, "lots of patients hadn't realised what that was".

FINANCIAL TIMES

Wednesday October 27 1993

Qatar agreement expected in six weeks

Israel to set up energy deals with Arab states

By Julian Ozanne in Jerusalem

ISRAEL says it is in the process of agreeing multi-billion dollar energy projects with Arab partners which will revolutionise its domestic energy sector. It claims the agreements will mark a turning point in the economic relations between Israel and the Arab world.

Israeli officials and businessmen say Israel will sign an agreement with Qatar within the next six weeks to start work on a $1.8bn natural gas project which involves the supply of natural gas to Israel and the use of Israel as an export terminal for Qatari gas across the Mediterranean to Europe.

The project was said to have been agreed during secret talks in New York and Qatar in August and September followed by three meetings in Israel.

Qatar, which has not confirmed the deal, could face regional hostility to any such agreement, in particular from Iran. Ten days ago the two countries formed a joint committee to liaise on the development of oil and gas projects. Iran remains bitterly opposed to Israel and to the peace deal struck with the Palestine Liberation Organisation.

At the same time, the Israeli Merhav group of companies, owned by Mr Yossi Maimon, said it had agreed a $950m joint venture with a private Egyptian company – the biggest Israeli-Arab joint venture by far – to build an oil refinery at the Egyptian free trade zone of Alexandria. The project is said to have been authorised by the Egyptian national investment authority.

Both projects, which are dependent on favourable feasibility studies, have been the subject of secret negotiations for months but were accelerated by the Israeli-Palestinian outline peace agreement signed in Washington last month.

Israeli officials and businessmen say the two projects mark the beginning of a "New Middle East" where Israel will emerge as a business partner and a regional centre for Arab trade to Europe.

According to Israel, Qatar has pledged to supply the Israeli market with natural gas for 25 years. Israel needs 6.7m tonnes of oil equivalent a year to convert its electricity generation from coal and oil to gas.

Qatar is said to have agreed to pay $1m for a feasibility study. One option is to build a gas pipeline from Qatar to the Israeli port of Ashkelon, where Qatar will also construct a gas liquefaction plant. Another possibility would be to ship gas to the Israeli Red Sea port of Eilat and then by pipeline to Ashkelon.

Mr Moshe Shahal, Israel's energy minister, has refused to name Qatar as the country involved. But he has said Israel was approached by a Gulf Emirate which is the world's second largest natural gas producer and that a team of experts from that country visited Israel secretly to conclude the agreement.

French union threatens to widen strike

By John Ridding in Paris

FRENCH UNIONS yesterday threatened to extend their industrial action at Air France to other public sector groups following a show of strength which paralysed the airline's flights to and from Paris.

Yesterday's protests, referred to as a "Black Tuesday" by the French press, were the broadest action yet in the eight-day strike by Air France ground staff.

Air France pilots and cabin staff, and union members from the national carrier's domestic airline and the Paris airports authority joined the ground staff in a 24-hour protest in spite of government concessions on a controversial austerity plan for the airline.

Mr Marc Blondel, general secretary of Force Ouvrière, one of the union groups which has spearheaded the protest at Air France, said the government's decision on Sunday to withdraw an austerity plan for the airline had set a precedent. Protests would be launched against job-cutting plans at other public sector companies, he said, citing Groupe Bull, the lossmaking computer group.

Mr Louis Viannet, leader of the the leftwing CGT union federation, said the climbdown at Air France represented a test case for the public sector.

The trade unionists' comments, however, came amid signs of division over whether to continue the industrial action at Air France, raising the prospect that the strike may have reached its peak. Force Ouvrière called on its members to suspend the strike from today, although it warned it would not hesitate to call new action if necessary.

A spokesman for the CGT, however, said its members would continue their protests until they received government guarantees that members would be fully paid for the period of their strike and a written commitment that there would be no job cuts.

The austerity package which was withdrawn by the government at the weekend included 4,000 job cuts by the end of next year and a reduction in overtime pay and bonuses. Mr Bernard Bosson, transport minister, has said that the job cuts are still necessary but that they can be achieved without sackings.

Yesterday's disputes forced Air France to cancel all flights to and from Paris, adding to the group's financial problems. The company estimates the strike is costing it FFr70m ($12.4m) a day in lost revenues.

Foreign carriers were much less affected, suffering delays but no serious disruption, according to Aéroports de Paris, the airports authority.

High flier takes control of grounded airline, Page 3

City arbitrage dealer defies UK recession to earn £9m

By Tracy Corrigan in London

EYEBROWS may be raised in Downing Street if heads of industry earn more than one million pounds. But in the recession-defying City of London at least one man has dwarfed these sums.

Mr Kaveh Alamouti, a dealer at Tokai Bank's London operation, is believed to have earned a cool £9m ($13.6m) last year probably making him the highest paid trader in Europe.

The sum puts him in the same league as Mr Peter Wood, founder of Royal Bank of Scotland's Direct Line insurance operation, who earned over £6m in the year to September 1992, and is thought to be on course to earn more than £10m in the financial year just ended.

As head of arbitrage trading Mr Alamouti looks for opportunities to make money across all financial markets, dealing in complex derivative instruments such as options as well as in bonds and currencies.

Arbitrage trading takes particularly strong nerves: as much as $50m of the bank's own money – can be pitted on a single trade.

Mr Alamouti was lured away from Salomon Brothers, where he was a top arbitrage trader, in 1990. He joined the US investment bank's research department in New York in 1983 as an analyst, before becoming a trader on Salomon's legendary fixed income arbitrage desk there.

Mr Roger Livesey, deputy chairman of Tokai Bank, and Mr Alamouti last night both declined to comment.

Arbitrage traders are particularly high earners, even by the generally high standards of the City and Wall Street.

In fact, hedge fund managers now top the earnings tree on Wall Street. According to Financial World, a US magazine, Mr George Soros, the Hungarian born hedge fund manager, earned more than $650m last year.

The bond market rally and currency market volatility of the last two years have proved extremely favourable for skilful arbitrage traders.

Although other traders stressed that Mr Alamouti's package is exceptional, the jobs market for traders with strong technical skills, such as derivatives traders, is booming.

Tokai's annual report for the year to December 31 1992 shows that a director of Tokai Capital Markets earned £7.6m and a director of Tokai Bank Europe earned £1.4m. It is believed that both these figures refer to Mr Alamouti who is a director of both companies.

US puts off sanctions against Japan

Continued from Page 1

uncovered by public prosecutors over the past few months.

The plan proposes that open bidding will be allowed for projects above specific thresholds, in contrast to the present system in which only companies designated by procurement authorities can tender, a prime source of corruption.

The plan does not specify the threshold above which projects will be available for open bidding, expected to be set at around Y700m, say officials. Until now, Japan has insisted on a threshold of Y1.5bn. The new proposal would bring Japan closer to the $4.5m per contract threshold preferred by most Gatt members.

Foreign bidders would be assessed on technical merit, rather than, as now, on their inevitably skimpy record in Japan.

Mr Kantor said: "Today's announcement indicates for the first time that the government of Japan is determined to bring about important reforms in its public sector construction market, including improved access for foreign firms." He welcomed the reforms and viewed them as part of prime minister Mr Hosokawa's "call for change throughout the Japanese economy and society".

Public prosecutors yesterday arrested one of the most senior figures in the construction industry scandal to date – Mr Shinji Kiyoyama, a vice-president of Kajima, Japan's most politically influential and second largest contractor.

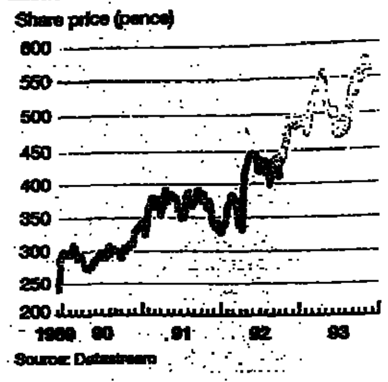
He is suspected of paying a Y20m bribe to a prefectural governor, to obtain a contract.

THE LEX COLUMN

Swedish match

FT-SE Index: 3165.3 (-19.5)

Thames Water



The relationship between Volvo and Renault was originally conceived as an equal partnership, so the irritation of some of Volvo's small shareholders at getting a mere 35 per cent of the merged company is understandable. The intervening three years may have seen Volvo's position deteriorate, but the benefits of cost cutting and krona devaluation are just starting to show. Meanwhile, Renault is hurtling headlong into the continental car pile up. Volvo's management may argue that Renault's recent poor profit figures should not determine the shape of the merger, but at least part of Volvo's misfortune is equally short term.

For all their ire, Volvo's small shareholders are unlikely to force better terms. This far, Volvo has had the better of the deal, since it has reaped Renault's economies of scale in car component sourcing. Nor, given the astronomical cost of model development, is it credible for Volvo to continue alone forever. The merger is Volvo's least bad alternative.

Whether the expanded group can be made to work is, however, another question. Most of the planned cost savings would have been achieved without merger. Now they must be carried through at the same time as the organisations are combined and pruned. There is justified suspicion that deeper cuts and more rationalisation will follow if Renault-Volvo is to avoid dis-economies of scale. Handling that integration is a real management challenge, and the history of automotive mergers from British Leyland through Fiat Lancia to Peugeot Talbot can hardly encourage the newlyweds.

UK economy

The latest CBI figures suggesting the manufacturing recovery is faltering may not be as worrying as they seem. It is understandable that orders and output have flattened now that the initial benefits of sterling's devaluation, interest rate cuts and stock replenishment have run their course. Growth is still likely to prove more robust this year than most forecast at its outset.

Still, fears that the downturn in mainland Europe would take the spring out of the step of UK manufacturers have proved well founded. That suggests there is room for further interest rate cuts, and there seems little in the inflation outlook to prevent it, as the CBI was quick to point out.

Growth in unit costs has all but ground to a halt while output prices continue to fall. Domestic markets have remained highly competitive, maintaining the squeeze on margins. But then, inflationary pressures are not proving as subdued outside the manufacturing sector. Yet it is doubtful whether a cut in UK interest rates and a lower pound would do much to improve manufacturing prospects. Given the problem largely lies in mainland Europe, further cuts from the Bundesbank would surely be more efficacious. It therefore seems ever more likely that the Chancellor will plump for the do-little option in the November Budget. A shaving of interest rates and modest tax rises would appear to represent the line of least resistance – uncomfortable though this stance may be for such a habitual political bruiser.

Thames Water

Thames's concern for speedy disclosure of provisions at its PWT contracting arm rings a little hollow. True, its interim results were bought forward by a week, but it has taken four years to uncover the extent of the problem. The last annual report contained a passing reference to a contract which remained in dispute. Before that, investors were offered assurances that difficult contracts acquired with PWT in 1989 had been sorted out. The acquisition looked of doubtful merit even before yesterday's provisions. With contract losses added back, Thames has paid more than £40m for a business with sales of £150m, peak margins of under 5 per cent and considerable risks.

Red ink on a lesser scale in Thames' other unregulated businesses does not inspire confidence in management's ability to turn the contracting side around. The comfort is that Thames' regulated water business is performing well. Demand for water from industry remains depressed by recession, but costs look well under control. In theory, losses outside the core water business should not worry Ofwat, the water industry regulator, so long as capital to finance building sewerage works is ring-fenced.

Yet losses anywhere in the group will increase the cost of equity capital – as yesterday's 2 per cent fall in Thames' shares underlines. The long-run impact is difficult to measure, but one wonders whether the episode will encourage Ofwat to look again at the handsome payments made by the regulated utility businesses to the quoted parent companies which help finance such diversification.

Leeds/N&P

The Arthur Daley character employed in the Leeds' commercials has, it seems, been stung by National & Provincial's bee. The differences in culture between the two building societies proved irreconcilable. Given the proposed merger was born of desire rather than desperation, it was wise to call a halt before it grew too serious. The merger's rationale depended on some painful rationalisation, which could only have worked had there been complete harmony of purpose. Leeds will resume its search for a chief executive and, perhaps, for a new merger partner. It seems likely to settle for a more conventional manager than Mr David O'Brien and a less risky partner than N&P.

Ferranti

In retrospect, Ferranti's fate was sealed when it signed the deal with *International Signal* in 1987, though the end of the cold war and low oil prices have delivered the *coup de grâce*. So why should anyone be prepared to take on the company's substantial debts at this stage? There are some businesses within Ferranti which are worth having – notably the naval sonar operation. That is worse than buying a shop to get a can of baked beans. Perhaps GEC or Thomson might wish to curry favour with the Ministry of Defence by rescuing one of its contractors, which looks like an expensive favour unless Ferranti's tax losses or pension fund surplus can be made to work for the bidder.

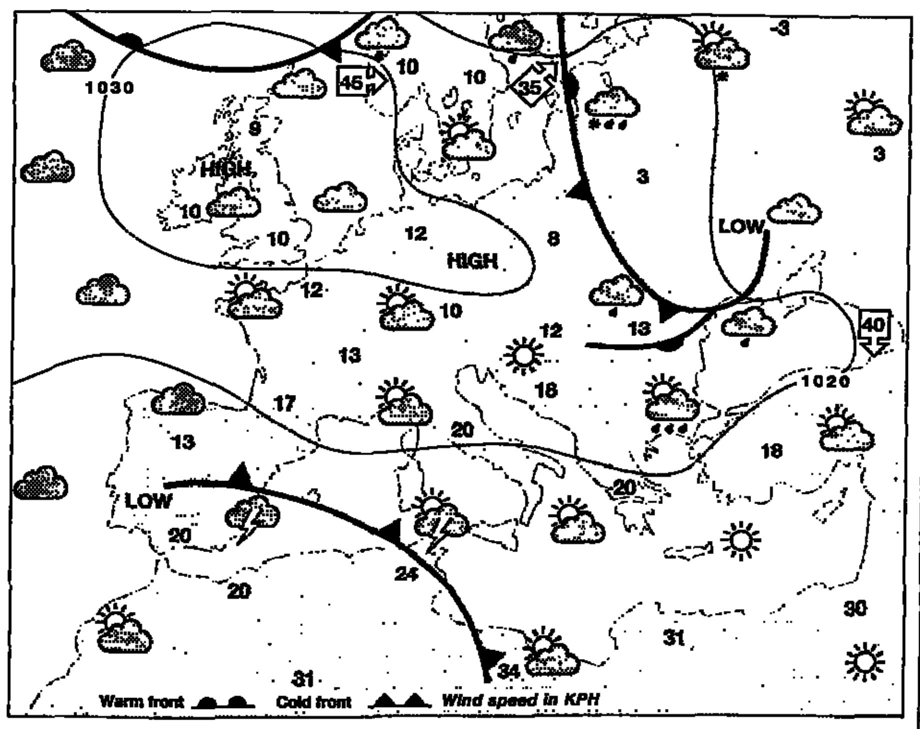
FT WORLD WEATHER

Europe today

The circulation of air around persistent high pressure over Scotland will bring cloud into the continent from the North Sea. Calm but gloomy and grey conditions will prevail in western areas. It will remain dry with glimpses of sunshine in particular over France. A low over Spain will cause heavy rain in eastern parts with the risk of flooding. Southern Italy will have a few scattered thunder showers while the north will stay dry and mainly sunny. Scandinavia will continue grey and windy with rain and drizzle in most areas and gale to strong gale force westerly winds on the Norwegian coast. North-east Europe will stay cool with snow showers and heavy cloud with rain expected from the Baltic states to the Black Sea.

Five-day forecast

Until the weekend, the British Isles and North-western Europe will remain settled with increasing sunshine, especially over England and the Benelux. Scandinavia will get cooler with rain or snow showers mainly limited to northern parts. The western Mediterranean will be changeable with much rain while north-eastern Europe will stay cool with snow showers.

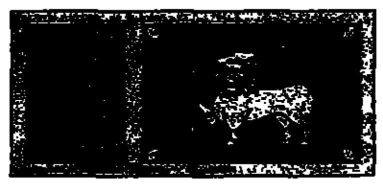


Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	34
Accra	fair	32
Algiers	cloudy	24
Amsterdam	cloudy	10
Athens	shower	21
B. Aires	fair	21
B.ham	cloudy	9
Bangkok	rain	33
Barcelona	rain	18
Beijing	rain	18
Belfast	cloudy	10
Belgrade	fair	12
Berlin	cloudy	9
Bermuda	cloudy	29
Bogota	fair	20
Bombay	cloudy	34
Brussels	cloudy	10
Budapest	cloudy	13
C.hagen	cloudy	11
Cairo	fair	30
Cape Town	fair	24
Caracas	cloudy	30
Cardiff	cloudy	10
Chicago	fair	8
Cologne	cloudy	11
D' Salaam	fair	29
Dakar	fair	28
Dallas	cloudy	17
Delhi	fair	32
Dubai	sun	36
Dublin	cloudy	10
Dubrovnik	fair	20
Edinburgh	cloudy	9
Faro	shower	19
Frankfurt	cloudy	12
Geneva	fair	10
Gibraltar	shower	19
Glasgow	cloudy	9
Hamburg	fair	9
Helsinki	rain	5
Hong Kong	cloudy	24
Honolulu	shower	23
Istanbul	cloudy	18
Jersey	cloudy	10
Karachi	fair	35
Kuwait	fair	34
L. Angeles	fair	30
Las Palmas	cloudy	24
Lima	cloudy	21
Lisbon	drzzl	18
London	cloudy	12
Lux.bourg	fair	10
Lyon	fair	13
Madeira	cloudy	22
Madrid	rain	13
Majorca	shower	21
Malta	shower	25
Manchester	cloudy	10
Manila	shower	31
Melbourne	cloudy	24
Mexico City	cloudy	23
Miami	fair	29
Milan	sun	15
Montreal	shower	12
Moscow	snow	-2
Munich	cloudy	10
Nairobi	thund	29
Naples	cloudy	22
Nassau	rain	30
New York	rain	13
Nice	fair	17
Nicosia	fair	32
Oslo	fair	9
Paris	fair	12
Perth	fair	17
Prague	cloudy	9
Rangoon	fair	34
Reykjavik	cloudy	7
Rio	fair	17
Riyadh	fair	33
Rome	fair	22
S. Frsco	sun	31
Seoul	fair	14
Singapore	cloudy	31
Stockholm	cloudy	10
Strasbourg	cloudy	11
Sydney	sun	25
Tangier	shower	19
Tel Aviv	fair	29
Tokyo	fair	15
Toronto	shower	11
Tunis	shower	24
Vancouver	sun	15
Venice	fair	16
Vienna	fair	12
Warsaw	drzzl	8
Washington	rain	16
Wellington	shower	15
Winnipeg	fair	6
Zurich	fair	10

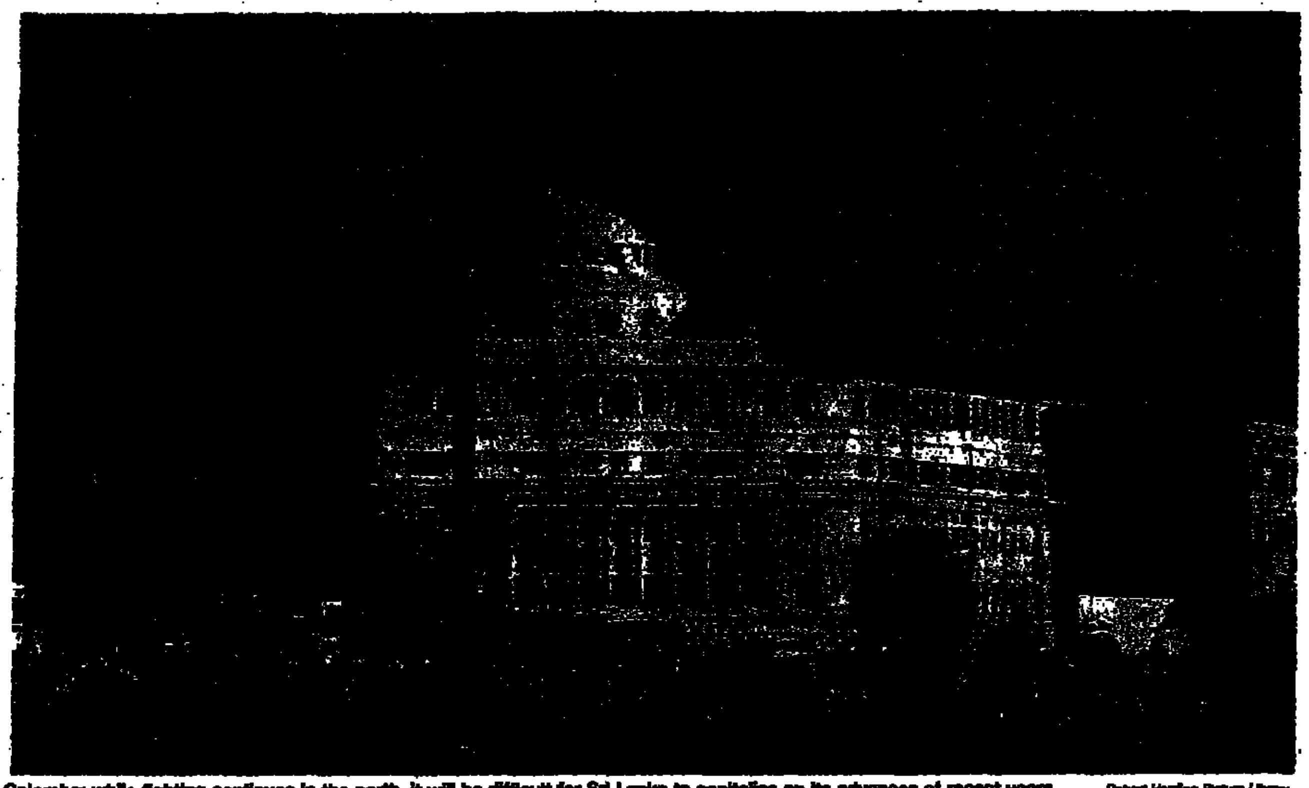
SRI LANKA



Wednesday October 27 1993

Sri Lanka's gross domestic product grew by 4.3 per cent in 1992 and exports climbed by more than 20 per cent. There is optimism in Colombo, but the war against Tamil separatists is a big obstacle to long-term economic progress. **Kieran Cooke** reports

Progress is hampered by conflict



Colombo: while fighting continues in the north, it will be difficult for Sri Lanka to capitalise on its advances of recent years *Robert Harding Picture Library*

ON the morning of *May 1 1993*, Mr Ranasinghe Premadasa, Sri Lanka's president, was on his way to a political rally. A populist given to flamboyant gestures, Mr Premadasa jumped out of his car at a busy junction and started directing traffic.

A man pushing a bicycle walked towards the president. A bomb tied to the man's waist blew the president to bits. More than 20 other people were also killed in the blast.

A few days earlier, Mr Lalith Athulathmudali, a popular opposition leader and former defence minister had been shot dead.

The government blamed both murders on Tamil separatists fighting for statehood in the north and east of the country.

The prophets of doom forecast that another round of bloodshed was about to sweep the country. There were fears that after five years of autocratic Premadasa rule, there would be political instability and the economy would nosedive.

In the event, a power transition was effected with the minimum of disruption. Mr D. B. Wijetunga, the mild-mannered former prime minister, moved up to the presidential position. Mr Ranil Wickremesinghe, the *44-year-old industries minister*, became prime minister.

The economy proved resilient to events. Despite continuing violence and the worst drought to hit Sri Lanka in 50 years, gross domestic product grew by 4.3 per cent in 1992 and officials say GDP growth this year is likely to be 5.7 per cent.

Exports climbed by more than 20 per cent in 1992 and seem set to expand by a similar amount this year. Moves towards a more open, free market economy are continuing. *There is plenty of optimism* about. "It is our goal to achieve newly industrialised country [NIC] status as we enter the *21st century," says President* Wijetunga.

But violence and the war against Tamil separatists remain the biggest obstacle in the way of Sri Lanka's long-term economic progress. Fighting between government forces and ethnic Tamil rebels has not only cost thousands of lives. The war has also cut off almost a third of the country from normal economic and social activity.

The war costs the equivalent of between 3 and 4 per cent of GDP each year, with security eating up 15 per cent of precious budget funds.

Former President Premadasa tried and failed to negotiate with the Tamil Tigers, the main rebel group. President Wijetunga shows signs of taking a harder line.

But the government has learned that it is very difficult to defeat a disciplined guerrilla force whose tactics include suicide bombings. Any full-scale military offensive against the rebels in the north could provoke *mayhem in other parts of* the island.

While the war continues, Sri Lanka is unlikely to attract the sort of long-term capital-intensive investment it so urgently needs in order to achieve NIC status and follow in the footsteps of dynamic economies such as those of Malaysia, Thailand and Singapore.

The country needs mills to feed its textile industry. If industrial expansion is to continue, new power plants should be coming on stream. But in the present circumstances investors, both local and foreign, seem unwilling to commit large-scale funds to Sri Lanka on a long-term basis.

It is a credit to the government that despite the war in the north and a Maoist-style insurgency in the late 1980s, which caused havoc in the south of the country, considerable progress has been achieved on many fronts.

Sri Lanka has been praised by aid organisations for its poverty eradication programmes. *Standards of literacy* and health are well in advance of any other country in the south Asia region.

Over the past five years Sri Lanka's economic structure has undergone fundamental change. Agriculture, once the mainstay of the economy, has declined in importance with tea and other traditional crops accounting for less than 24 per cent of the total value of exports last year. Meanwhile, industrial exports, mainly textiles and garments, grew by 41 per cent last year and now account for more than 65 per cent of total export values.

In the South Asia region, Sri Lanka has been a pioneer in introducing market-based reforms. Exchange controls have been progressively lifted. Tariffs have been reduced. A number of state enterprises have been privatised.

"The results of these policies are clearly *evident," says President* Wijetunga. "We have more than doubled our rate of economic growth. Our average per capita income has risen from SLRs1,902 in 1976 to SLRs24,234 in 1992 ($214 and $553 at prevailing exchange rates) despite having 3.7m more mouths to feed.

"We have made a dent in unemployment, which has declined from about 24 per cent to around 14 per cent... there is hope in the air and the international community has developed confidence in our land and its policies."

But not all government policies have worked. Inflation, now running at between 12 and 15 per cent according to central bank officials, remains an intractable problem. The government has made large cutbacks in spending in some sectors and a tough budget is forecast in early November.

But spending on security is rising rapidly and while considerable progress has been made in cutting the budget deficit, *which now amounts to 7.4* per cent of GDP, Sri Lanka remains dependent on foreign funding to meet its spending needs. Sri Lanka received $840m in aid last year; a far higher amount, on a per capita basis, than other countries in the region.

Foreign direct investment in 1992 nearly doubled to $120m and further strong investment growth has been evident this year. But most of this investment is relatively short term. A large proportion of inward investment has gone into textiles: some argue that the country is now overly dependent on one industrial sector.

A lot of investment has come from the east, particularly from South Korea and Taiwan. Sri Lanka needs to build an industrial base but many companies use the island only as an assembly point for garments, taking advantage of cheap labour and the country's quotas. Most cloth for the textiles factories is imported. Owners of the few textile mills operating in Sri Lanka allege that the South Koreans and others are dumping cloth on the island and threatening the survival of their mills.

Although significant progress has been made in fiscal *reforms and moves towards a* more open economy, the process has been slow. The IMF is concerned about recent public sector pay rises and excessive credit growth, particularly in the plantations sector. Last year, Mr Wijetunga, then prime minister, admitted that the two big state banks, which control more 65 per cent of the banking industry, had accumulated a total of SLRs18bn in *bad loans and were technically* insolvent.

Privatisation – termed "peoplisation" by the government – has so far excluded many of the big state enterprises such as the two biggest banks, the telecommunications company and Air Lanka, the national carrier.

Sri Lanka is arguably a more democratic country than its economically thriving neighbours to the east. "We are the opposite of Singapore or South Korea," says Mr Wickremesinghe. "Democracies have to *carry people along*; a government has to explain. We are a politically mature country."

But an active democracy often leads to tough economic decisions being put off for political reasons. Government officials acknowledge they have to tread very carefully with privatisation so as not to offend powerful unions. The present Wijetunga government is regarded as less tough in many areas than the Premadasa regime. More political trade-offs are likely, particularly in the run-up to presidential elections due to be *held* before the end of 1994.

For the moment, the United National Party, in power since 1977, seems secure in office, with the main opposition party, the Sri Lanka Freedom Party (SLFP) led by Mrs Sirima Bandaranaike, a former prime minister, divided by bitter quarrels.

The government still has a very tough job. Sri Lanka's well-educated people have high aspirations. In the late 1980s, *former President Premadasa* ruthlessly quashed a left-wing insurgency in the south. Remnants of that movement, resentful at the lack of economic opportunities available, still exist.

But above all, it is a settlement of the fighting in the north and east which holds the key to Sri Lanka's future. In Colombo, the war often feels remote. But as long as the fighting continues, it will be difficult for Sri Lanka to climb the economic ladder and capitalise on its impressive advances of recent years.

IN THIS SURVEY

Editorial production: Phil Sanders

■ THE ECONOMY

Separatist war is still critical factor

SRI LANKA'S ambition, as stated by President D. B. Wijetunga, is to move into the league of newly-industrialised countries by the year 2000.

Economic growth in recent years has been moving ahead at a respectable pace. Sri Lanka's GDP grew by 6.2 per cent in 1990, 4.6 per cent in 1991, 4.3 per cent last year and, according to central bank officials, is likely to expand a further 5.7 per cent in 1993.

There is an air of economic confidence about. The shop shelves are full; Colombo's roads are becoming clogged with imported cars. Officials talk of economic lift-off.

"We are pushing forward to achieve our NIC goal," says Mr Ranil Wickremesinghe, prime minister since May. "We want to move from a lower income to a middle income country."

But while short-term prospects remain bright, there are many who question the realism of the government's long-term objectives. The continuing war in the north and east of the country looms like a dark cloud over the economic future.

On the plus side, there has been a vast improvement in economic performance in the past few years. Through much of the 1980s, the government had to fight not only a war against Tamil separatists in the north and east but also a Maoist-style insurgency in the south. The economy stagnated. Investment declined. The tourists stayed away.

That has all changed. Industrial output, mostly based on textiles and garments, has expanded rapidly. In 1992, the value of industrial exports surged by more than 40 per cent, with the textiles sector accounting for nearly 50 per cent of total export earnings.

Agriculture, which accounts for about 25 per cent of export earnings, has recovered from last year's drought

In the first half of 1993, industrial exports rose more than 30 per cent.

Agriculture, which accounts for about 25 per cent of export earnings, suffered due to a prolonged drought last year and output declined by 1.5 per cent. But figures this year are far healthier, with a nearly 40 per cent rise in the output of tea, Sri Lanka's main crop, and a 22 per cent rise in rubber output in the first six months.

Direct foreign investment last year nearly doubled to $120m. More than $400m of foreign investments are now in the pipeline. In addition, nearly $30m of portfolio investment came into the local stock market, attracted by the government's economic liberalisation policies and the partial privatisation of several state entities.

Tourist arrivals were up 24 per cent last year and will get close to the record figure of 407,000, set in 1982, the year before the main outbreak of ethnic troubles on the island.

Meanwhile, average per capita incomes have risen from $214 in 1976 to $553 a year last year. According to official figures, unemployment – one of the problem areas in the economy – has dropped from about 24 per cent 10 years ago to 14 per cent.

The government's overall financial policy has also met with some success. The budget deficit was reduced to 7.4 per cent of GDP in 1992, compared to 11.6 per cent of GDP in the previous year. In 1992, for the third year running, there was an overall balance of payments surplus, helped by an inflow, now running at $400m per year, of remittances from Sri Lankans working abroad.

A few years ago, Sri Lanka had zero foreign exchange reserves and foreign exchange controls led to a thriving black market in the rupee. Now most exchange controls have gone, the rupee is free floating and, according to official figures, foreign reserves have risen to $1.7bn, enough to cover up to six months' imports.

But there is still a lengthy list on the minus side of the economic table. There seems little hope of any further reduction in the budget deficit, at least in the short term. Government spending went up by nearly 40 per cent in the first five months of 1993, in part due to substantial increases in the cost of fighting the war.

The jump in spending is also a byproduct of the continuing fight against inflation, described by President Wijetunga as "the great monster of our times". The central bank says inflation was 11.4 per cent last year. The overall inflation rate is now estimated to be between 12 and 15 per cent.

Treasury officials admit that efforts to stem inflation have so far failed. High interest rates of more than 20 per cent, designed to counteract inflation, have attracted large amounts of funds into the country. Portfolio investments from abroad have added to the inflationary pressures. The central bank has had to spend large amounts mopping up excess liquidity in the system. The broad money supply has increased by about 20 per cent so far this year.

To bridge its budget deficit, Sri Lanka is still largely dependent on considerable amounts of foreign grants and aid, which totalled more than $800m in 1993.

While exports have been growing fast, they have been outpaced by import growth. The value of imports rose 24 per cent in the first five months of this year and the trade deficit widened to $673m.

Upward pressures on wages could lead to the textiles industry decamping to Vietnam or Bangladesh

Some of these economic difficulties might be seen as only short-term structural deficiencies, to be tackled over a period of time. The more difficult question, given Sri Lanka's NIC aspirations, is how does the country achieve the next stage of development.

To ensure onward development, investments need to be made in more value added industries. But such long-term and capital-intensive investments are not being made. Sri Lanka's economic position is still fragile: upward pressures on wages could lead to its textiles industry decamping to lower cost countries such as Vietnam and Bangladesh.

Above all else, the war remains the critical factor. It soaks up increasing amounts of precious government funds. Multi-million-dollar long-term investments in power plants, fertiliser factories and in textile mills are unlikely to be forthcoming given the present security problems.

The government places high hopes in the tourism industry. But a target of doubled tourist arrivals to more than 800,000 by the end of the decade seems unrealistic in the present circumstances, with some of the country's best tourist facilities on the east coast of the island virtually out of bounds due to the war.

Sri Lanka has made impressive short-term economic gains. In the long term, an end to the war and continuing political stability are the keys to whether or not the country will achieve its NIC goal.

Kieran Cooke

KEY FACTS

Area	64,454 sq km
Population	17.4 million
President	D. B. Wijetunga
Currency	Sri Lanka rupee (SLRs)
Average exchange rate	1991 $1=SLRs41.372
	1992 $1=SLRs43.830

ECONOMY	1991	1992
Total GDP ($bn)	9.0	9.7
Real GDP growth (%)	4.6	4.3
Components of GDP (%)		
Private consumption	77.3	75.2
Total investment	22.8	23.7
Government consumption	9.9	9.5
Exports	28.7	32.4
Imports	-38.8	-40.8
Annual average % growth in		
Consumer prices (%)	12.2	11.6
Wholesale prices (%)	9.1	8.7
Govt. deficit (%) [1]	9.5	7.2
Total external debt ($bn)	6.6	7.1
Debt service ratio (%) [2]	15.2	16.4
Oficial foreign reserves ($m)	685	927
Money market rate (%) [3]	25.4	19.0
Trade		
Current account balance ($m)	-483	-409
Exports ($m)	2,040	2,433
Imports ($m)	3,061	3,433
Trade balance ($m)	-1,021	-1,000
Main trading partners (%) [4]	Exports	Imports
USA	29.2	4.3
Japan	5.9	10.5
Singapore	2.1	8.4
Hong Kong	1.0	8.0
Germany	10.2	3.3
UK	5.8	8.2
EC	33.1	18.8

(1) Government deficit as % of GDP
(2) Debt service as a % of exports of goods and services.
(3) 1992 rate is first quarter average only.
(4) Percentage share of trade in 1991.
Sources: Datastream, EIU.

■ STOCK MARKET

Phlegmatic reaction to assassination

COLOMBO stock market watchers were expecting the worst in the aftermath of the assassination of President Premadasa in May this year. There was talk of a political and economic crisis: analysts were readying themselves for a plunge in share prices.

But the crisis did not occur. The stock exchange reaction to events was remarkably phlegmatic. By June, the market was in a bullish mood. New issues were well received. In the June-September period this year, the market rose by more than 20 per cent.

"The fact that the market did not over-react to the assassination shows its resilience and maturity," says Mr L. S. Jayawardena, chairman of the Sri Lanka Securities and Exchange Commission (SEC). "The Sri Lanka market might be relatively small, but in the space of just a few years it has become a sophisticated market in which foreigners are showing increasing interest."

Mr Jayawardena was appointed to the SEC in 1987. Total market turnover at the time was less than SLRs200m ($4m). By 1990, total turnover had shot up to SLRs1.56bn and last year turnover reached SLRs 5bn. This year, it is likely to be more than triple that amount.

Mr Jayawardena says the main stimulus to market growth came in June 1990 when the government made the first moves to ease rules on exchange dealings by foreigners. Before that time a 100 per cent transfer tax was levied on share transactions by foreigners.

"The relaxation of the rules on foreign participation in the market was a major decision in an inward-looking country like ours," says Mr Jayawardena. "As foreign money came in, so locals felt greater confidence and started to buy shares."

Mr Premal De Mel, a researcher with the Colombo firm MacKinnon and Keels Financial Services, estimates that about 60 per cent of trading on the market is now foreign-based. "This is still a small market and the weight of foreign funds coming in can make a big difference," says Mr De Mel.

Both foreign and local investors were encouraged by the government's new industrial strategy of the late 1980s which emphasised that the private sector must play a lead role in promoting the country's economic growth.

The government's privatisation or "peoplisation" programme got under way in 1989 with the public share issue of United Motors Lanka. That issue was poorly received in a market still unschooled in the ways of the stock exchange.

But by early 1991, when state-owned Ceylon Oxygen came to the market, the share climate had changed. The issue was oversubscribed more than five times.

New listings have increased from one in 1990 to 12 last year and a possible 13 this year. At present 196 companies are listed on the Colombo exchange.

An SEC-sponsored public education programme telling people about the stock market helped to broaden share ownership. By the end of last year the SEC estimated that the number of shareholders in the market had increased to 40,000 – from only 10,000 in 1990. In addition, 20,000 shareholders had been created through the peoplisation programme under which employees were given 10 per cent of shares in the privatised state-owned enterprises.

But it has not been all plain sailing for the exchange. Market overheating in 1991 was followed by a prolonged downturn through 1992. As a result, market capitalisation dropped from SLRs81bn to SLRs66bn in the year. Although foreign interest in the market remained, local investors tended to shy away from new public share offers, choosing instead to take advantage of high bank deposit rates and Treasury bills which offered attractive 18 per cent yields.

The privatisation of one of the bigger state banks, the National Development Bank of Sri Lanka (NDB), in February this year helped turn the market. The NDB issue, backed strongly by foreign investors, was oversubscribed nearly four times. The subsequent entry into the market of two state-controlled hotel groups further buoyed investor confidence.

The main constraint on market growth now is liquidity. Despite high interest rates and the attraction of raising funds on the stock market, many of Sri Lanka's biggest companies still choose to remain private, mostly family-controlled businesses. Many are reluctant to put themselves in a position where they have to make financial disclosures.

The Colombo stock exchange has come a long way in a very short time and is one of the region's most technically sophisticated.

When he took on the job of SEC chairman one of the first moves Mr Jayawardena made was to set about introducing a computer-based central depository system. With funding and technical assistance from USAID, the scripless system came into being in late 1991.

"We realise we are small, but we are one of the most technically advanced exchanges in the region," says Mr Jayawardena. "Given continuing healthy economic growth and providing more companies discover the advantages of going public, there's no reason we won't expand rapidly in the years ahead."

Kieran Cooke

SRI LANKA

H.E. D. B. Wijetunga
President
Democratic Socialist Republic of Sri Lanka

Hon. Ranil Wickremesinghe
Prime Minister
Democratic Socialist Republic of Sri Lanka

CHANGE AGAINST A BACKDROP OF STABILITY AND CONTINUITY

It boasts Asia's oldest constitutional government. It has survived separatist conflict, terrorist insurgency, an unsuccessful experiment in socialism and the abrupt demise of its last President. Now after 16 testing years of reform, Sri Lanka, under the leadership of the United National Party (U.N.P.), has proved the resilience and stability of its democratic government and its ability to deliver substantial and sustained economic growth.

"These two principles embedded in the United National Party's philosophy of development have created space for the people of Sri Lanka to become creators of wealth within the context of a pluralistic society".
H.E. D. B. Wijetunga
President

When it came to power in 1977, the UNP introduced a sweeping programme of reform based on two central principles: the assurance of individual liberty and fundamental rights and the liberalisation of economic activity by encouraging the interplay of market forces. The result was a strong and mostly uninterrupted surge of economic and social activity.

The Politics of Prosperity

Property : Distributing land titles to over a million families.

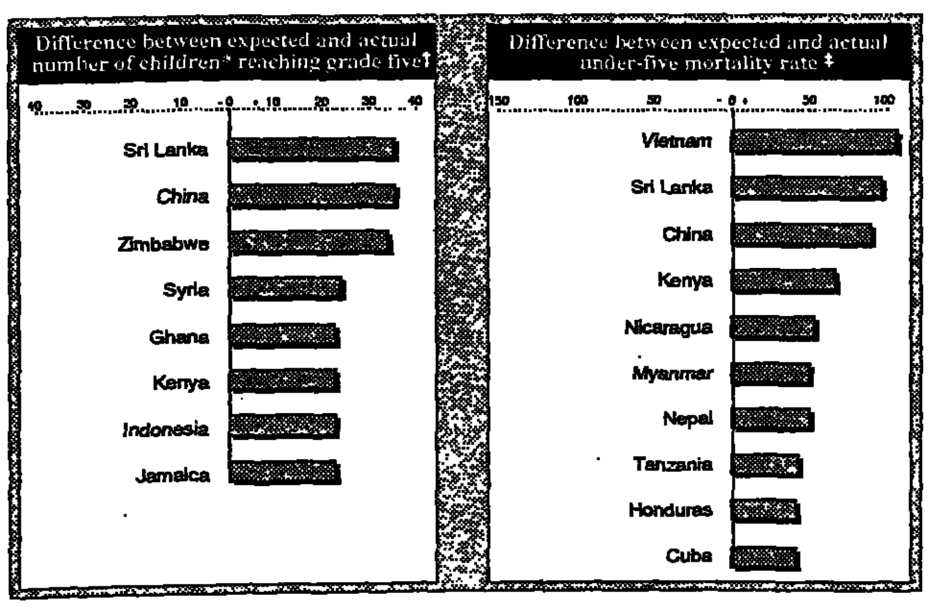
Housing : Provision of housing facilities under the one million houses programme.

Equity : Awarding Workers in public enterprises equity stakes in the privatisation of these enterprises.

Business : Developing small business through bank lending programmes.

An intrinsic component of the government's vision for the future is the concept of a democratic society where political and economic power is dispersed among the people. To achieve this end, this government has embarked on a number of socio-economic programmes which seek to enhance the welfare of the people while entrenching the concept of ownership.

Human Development takes priority



UNICEF in a recent report titled "The Progress of Nations" ranks countries by "national performance gaps" i.e. it compares what a country with a given income per head "ought"- by world average - to achieve with what it actually does. The chart shows Sri Lanka as being amongst the best in the world on two indicators : under five mortality and the percentage of children with at least 4 years of primary schooling.

The way ahead is clear: increased integration with the world economy leading to further dismantling of State controls over economic activity. At the same time, devolution of political power and decentralisation of administrative power ensure a continuity in the human aspect of Lanka's development.

"A parallel development is the dispersal of political power from the centre to the periphery. Devolution of political power has taken place at the Provincial level. Furthermore, the deregulation of the economy and the decentralisation of the administrative machinery has dispersed decision making powers throughout the country."
Hon. Ranil Wickremesinghe
Prime Minister

■ SECURITY

Fresh confidence among army chiefs

MORE than 300 people were killed and hundreds injured earlier this month in one of the fiercest battles of the 11-year war between Sri Lanka's armed forces and Tamil Tiger guerrillas.

But political and military observers say what was unusual about the battle for Kilaly – a small guerrilla port on the edge of the Jaffna lagoon – was not the scale of the action but the fact that seven Sri Lankan army officers were killed in the fighting.

Army officers, members of a once largely ceremonial force, have not been noted for leading from the front. But after nearly a year of inactivity following the deaths of several senior commanders in a landmine explosion, there is now a new grit and determination at the top in Sri Lanka's 80,000-strong army.

The country's senior military commanders, confident they have the country's troubled Eastern province under control, say they have at last been given the go-ahead to retake the rebel-held northern peninsula of Jaffna, from which they were expelled in humiliating circumstances in 1990.

This confidence appears to be percolating down to even the most battle-weary of front-line officers. President D. B. Wijetunga – angered by earlier political prevarication, the assassination in May of President Ranasinghe Premadasa and the high cost of a war that has claimed 32,000 lives – has publicly vowed to crush terrorism.

Not for him the policy of his predecessor who accomodated guerrillas in five-star hotels. Mr Wijetunga appears to believe it is not possible to negotiate with Mr Velupillai Prabhakaran, the autocratic and militarily brilliant leader of the Tigers. "There is no ethnic problem in the north, only terrorism," says Mr Wijetunga.

Defence Department officials refuse to say when the main offensive across the war-torn Jaffna peninsula – also home to about 600,000 Tamil civilians – is likely to be launched. But military commanders hint that it could come next year.

The army has already started building up its strength. Ten thousand new recruits are under training and more are expected. The total complement may end up at about 100,000 men.

The military plans to buy helicopter gunships, landing craft and fast patrol boats for the confrontation with an estimated 3,000-4,000 well-armed and trained guerrillas who have been fighting for an independent Tamil homeland.

Part of the explanation for the more determined political will in Colombo, and the army's new confidence, may lie in the recent success the military has had in bringing an element of normality back to the country's troubled Eastern province.

Less than three years ago, the province's two main cities of Trincomalee and Batticalore were in rebel hands and large tracts of the mixed Tamil, Moslem and Singhalese province were no-go areas to the army and the civil authorities. Today, most of the province is under government control, at least during the day, and many Tamil Tiger guerrillas based in the area appear to have fled north to the Jaffna peninsula.

The government is planning to hold local elections in the Eastern province in February and, later in the year, a referendum on whether to merge with the country's northern province. If local elections are successful, tens of thousands of Sri Lankan troops could be released for duty in Jaffna.

A young soldier guards the Palaly perimeter, just eight miles from Jaffna City — Picture: Richard Cowper

President Wijetunga, who is also Sri Lanka's finance minister, is intent on trying to catapult his country into the ranks of the newly industrialised nations by the beginning of the next century, and is only too well aware of the heavy economic toll the war is taking on a country where many still live below the poverty line.

To finance soaring war costs the government has recently been forced to impose a special defence levy of 3 per cent on all transactions, operating in a manner similar to value added tax. This year, direct military expenditure is expected to total more than SLRs20bn – about 15 per cent of the budget – but at least the same amount again is spent on feeding and rehabilitating the war-torn civilian population in the north and east.

Thousands of foreign investors have been frightened away by the fighting and many believe the number of tourist arrivals could climb to more than 1m within a few years if the war was ended. The economy of Jaffna, once the biggest supplier of fish and cash crops in Sri Lanka, is at a standstill and tourists no longer visit the East with its fabulous beaches.

President Wijetunga appears to be willing to stake all on the attempt to recapture the Jaffna peninsula guerrilla stronghold by force in an attempt to bring the war to a swift conclusion.

A brief glance at the map would seem to suggest that the army is in an excellent position to launch an offensive. It has a series of army-controlled zones ringing the peninsula: at Palaly in the north it controls Jaffna city's airport in a zone 20km wide and 5km deep; across a sunken bridge to the west of the city it controls a number of sizeable islands; and to the south-east it has cut off the peninsula from the Sri Lankan mainland by linking its Elephant Pass army base to the sea.

But the war in the north is a classic guerrilla action, fought by the most tenacious and fanatical of men and women, as the recent battle of Kilaly showed. On the second day of the army advance from its base at Elephant pass, a carefully dug-in group of 1,000 guerrillas took the Sri Lankan forces by surprise and in bitter hand-to-hand fighting killed 118 soldiers.

Hardcore guerrillas, led by a daring military strategist, may number little more than 5,000 throughout Sri Lanka, but they were able to defeat 120,000 Indian troops in the late 1980s. Every combatant carries a cyanide pill around the neck, which they swallow rather than allow themselves to be taken prisoner alive.

There may be fewer guerrillas, and less well-trained, than when they pushed the Indians out and when they controlled much of the Eastern province, but they remain as ruthless and are still able to assassinate politicians and military commanders.

There is some evidence they may no longer have such fierce support from the Tamil population in Jaffna. Creation of Tamil Eelam (the rebel's free state) is as far away as ever and some locals have dared to speak out against a guerrilla force, whose tax collecting ability at home and abroad, is legendary. But after a decade of indoctrination most ordinary Tamils in Jaffna still fear Sri Lanka's "Singhalese Buddhist army" more.

Even if Tamil civilians did not fight voluntarily they might be forced into battle on the side of the guerrillas. It is by no means certain that the Sri Lankan armed forces could march into Jaffna city without killing on the way tens of thousands of civilians in the densely-populated province.

House-to-house fighting in the city could be even bloodier, and the question no one seems able to answer with confidence is whether the army yet has the numbers, ability and determination to retain control of the peninsula once it has marched in.

Richard Cowper

■ The battle for hearts and minds

Humanitarian effort to feed civilians

WHEN Colombo put down in bloody fashion a Singhalese nationalist uprising in 1989 it soon found itself having to contend with a volley of international condemnation. Its systematic abuse of human rights also alienated many of its own people, writes Richard Cowper.

Today, Sri Lanka is still fighting a guerrilla war but it has put greater efforts into winning hearts and minds at home and abroad.

The country is now known overseas for its unique humanitarian effort in providing virtually all the food and necessities to more than 500,000 Tamil civilians living in the rebel-controlled Jaffna peninsula, where Tamil Tiger guerrillas have been waging an 11-year struggle for an independent homeland.

"Normally, civilians trapped in guerrilla-controlled areas have to find their own food," says Mr Dominic Dufour, head of the International Committee of the Red Cross (ICRC) based in Colombo.

"The government has realised that no rebel with a Kalashnikov ever starves. But this programme is unique. It's the only country in the world where you can officially mail a letter from the capital to a rebel stronghold."

The government started the programme in 1990 and now spends more than $500m a year, despatching an average of 10,000 tonnes of food each month to Jaffna in a fleet of cargo ships under the supervision of the ICRC.

The food is distributed free to about 240,000 people who have been displaced from their Jaffna homes. The rest is sold in shops to civilians and guerrillas alike, under the watchful gaze of highly-efficient Tamil Tiger tax collectors.

Mr Christie Silva, in charge of the programme at the Ministry of Reconstruction and Rehabilitation says: "It's true we do not want hundreds of thousands of civilians fleeing south. But neither do we want to see starvation.

"We have to think of the future: after all, they are our people; they are also Sri Lankans."

No one is pretending the government is without fault. There are reports of malnutrition in some areas of Jaffna. A ban on diesel shipments, to deny guerrillas fuel for their vehicles, means there is a power blackout for most nights of the month.

The country's 80,000-strong army sometimes oversteps the mark in its bitter struggle to recapture large areas of the north and some patches of the east which are still controlled by the guerrillas.

In a visit this month to the Palaly army-controlled zone, just north north of Jaffna city, I saw several night-time bursts of 150mm howitzer shells. In an area so densely populated anything less than perfect accuracy is likely to kill or injure non-combatants.

Reports of civilian Tamil deaths by army shelling are not uncommon.

But in the war for hearts and minds, there is some evidence that the government may be winning. A proposal to hold local elections in the country's troubled eastern province is seen as a further step towards normality in an area once largely controlled by the Tamil Tigers.

In the north, the growing financial predations of the guerrillas against a hard-pressed and besieged civilian population are beginning to take their toll.

Some Tamil civilians appear to have become heartily sick of the war and might even welcome a return to civilian control.

But Mr Velupillai Prabhakaran, the ruthless Tamil Tiger leader, does not appear to be willing to negotiate a political solution and Colombo therefore sees itself compelled to pursue a military one.

All the hard-won gains could disappear overnight if the army attempts to recapture the Jaffna peninsula, as it is threatening to do.

Thousands of Tamil civilians might be killed and the Tigers would do everything in their power – including using human shields – to ensure that Sri Lanka's image was again tarnished in the eyes of the international community.

■ Co-operation with India

New Delhi has score to settle

OPERATIVES of New Delhi's secret service Special Investigation Team (SIT) set up to track down the killers of Mr Rajiv Gandhi, the former Indian prime minister, are now regular visitors to Colombo, writes Mervyn de Silva and Richard Cowper.

SIT is working closely with Sri Lanka's police and intelligence services and its mission is clear: seize or kill Velupillai Prabhakaran founder and commander of the separatist Liberation Tigers of Tamil Eelam (LTTE) and the man they are convinced master-minded the assassination of the Indian prime minister.

Mr Gandhi was killed in May 1991 by a young female Tamil suicide bomber from Sri Lanka at an election rally in the southern Indian city of Madras. The *modus operandi* was very similar to that used by the LTTE to murder Sri Lanka's President Premadasa at an election rally in Colombo in May this year.

The co-operation between New Delhi and Colombo in this and other security areas is a far cry from the last decade when India operated a policy aimed at destabilising her tiny southern neighbour.

Today, New Delhi no longer supports and arms Tamil Tiger guerrillas. It fears that it might end up with its own rebel movement in the fractious southern Tamil state of Tamil Nadu and is taking a tough line against LTTE arms smuggling.

Earlier this year, the Indian navy captured and destroyed a trawler in the Palk Straits, a 20-mile strip of water that separates Tamil Nadu and Sri Lanka's Jaffna peninsula. As well as arms and explosives, on board was Prabhakaran's right-hand man, known as Kittu. He and a number of other senior LTTE commanders died in the incident in circumstances that have never been fully explained.

The loss of Kittu is said to have been a heavy blow to the rebel leader. Prabhakaran is said to have placed great reliance on Kittu as one of the few commanders he could trust.

So deep is his fear of New Delhi that he recently placed Mahattya, his deputy, under house arrest in Jaffna as a suspected "Indian agent."

All this seems an age from the early 1980s when Rajiv's mother, Mrs Indira Gandhi, ordered RAW – India's equivalent of the CIA – to arm and train cadres of a tiny Tamil rebel movement in secret Indian camps. The close relationship began to break down when Rajiv – who succeeded his mother as prime minister after she was assassinated by her Sikh bodyguard – signed an Indo-Sri Lankan peace accord in 1987. An Indian peacekeeping force was despatched to Jaffna to force a settlement on the Tamil Tigers.

India and Mr Gandhi were to pay dearly for this change in policy. With just a few thousand guerrillas, Prabhakaran engaged and drove out an Indian army of 120,000 men. At least 7,000 Indian soldiers died and many more were wounded before the pullout came in 1990.

In parts of Tamil Nadu – the traditional Dravidian enemy of the Buddhist Singhalese – the Tamil Tigers are still seen as heroes. But New Delhi has a new foreign policy of regional co-operation and a very deep personal score to settle with the man who brought to a premature end the reign of India's most famous political dynasty.

■ TRADE

Deficit is at a record high

REFORM is rarely painless. Moving ahead rapidly to create a more liberal trade and foreign exchange regime, Sri Lanka has been hit hard by a sharp deterioration in its balance of trade, giving finance officials serious cause for concern.

A steady reduction in import tariffs, likely to be continued in next month's budget, and the easing last year of most foreign exchange controls on the current account, have helped to push the country's trade deficit to a record high, in spite of soaring exports.

In the first six months of 1993, the trade gap widened by 38 per cent from SLRs24.73bn in the first six months of 1992 to SLRs34.19bn, a level which most agree is not sustainable in the long run.

As a proportion of total trade, the deficit remained the same at 21 per cent, but imports continued to grow at a faster rate than exports and from a much higher base. Part of the 35 per cent increase in imports to SLRs95.97bn in the first half of 1993 was a one-off purchase by Air Lanka, the country's civil airline, of two Airbus A340s. Much of the growth came from capital goods used for investment or intermediate goods, such as textiles, which are re-exported.

On exports, the outlook is brighter than it has been for some time. According to Mr A. R. Mansoor, minister for trade, the most remarkable development has been the expansion in the range of industrial exports.

"With 500 garment factories on stream, clothes are our top export earner. But, most encouraging of all, we are now selling 2,000 industrial products overseas," he says.

The first half of 1993 saw a sharp recovery in overseas sales of tea, rubber and cash crops following a severe drought in 1992. This, coupled with the continuing success of Sri Lanka's runaway textile sector, saw exports jump by 34 per cent in the first half of the year, putting the country on course for a record export performance in 1993. Exports in the first six months totalled SLRs61.8bn; up from SLRs46.34bn in the same period last year.

Textiles and garments led the way with a 31 per cent increase in export value to SLRs30.77bn in the first six months after a record-breaking year in 1992. For the first time, textile and garment exports accounted for 50 per cent of Sri Lanka's total overseas sales.

Even in value-added terms, garment exports (imported inputs account for about 60 per cent of the gross export value) have now overtaken the country's traditional tea and rubber export mainstay.

In the first half of 1993, Sri Lanka's agricultural exports grew by 21 per cent to SLRs14.57bn, accounting for 24 per cent of total exports. Tea made a strong recovery in the first six months of 1993, up 35 per cent to SLRs9.2bn following last year's drought when it recorded its most dismal performance since 1966.

The removal of substantial export taxes on tea, rubber and coconut at the end 1992 saw the elimination of an important structural inefficiency in the economy and did much to improve the prospects for an industry where poor prices and high costs have meant many plantations have made losses.

This year the Russians have come to the rescue of Sri Lankan tea exporters after the loss of the Iraq market two years ago due to the Gulf war United Nations embargo and a sharp reduction in tea imports this year by Iran and Egypt, two of Sri Lanka's big markets.

Russia and the Commonwealth of Independent States (CIS) countries imported almost 20,000 tonnes in the first six months and are expected to import about 30,000 tonnes of Sri Lankan tea – mostly of the cheaper variety – out of an expected total of 220,000 tonnes of exports this year.

The star export performers in 1993, however, have been other industrial products, up more than 64 per cent on last year to SLRs12.2bn, and going some small way to substantiating Mr Mansoor's claim that the country may soon no longer be a two-horse export economy of tea and textiles.

Fastest growing of all the export items in this category has been polished diamonds, up almost threefold to SLRs2.53bn in the first half, with exports of manufactured rubber goods not far behind.

But Sri Lanka's economy still has a long way to go before it can shake off the suspicion it is still over-reliant on just a few dominant sectors. After all, tea and textiles alone accounted for 65 per cent of the country's total exports in the first six months of this year.

Richard Cowper

■ Profile: Ranil Wickremesinghe

Prime minister rose rapidly on political ladder

COLOMBO Postal District 7 is an area of elegant colonial mansions and tree-lined avenues. Mr Ranil Wickremesinghe, Sri Lanka's prime minister since May, is seen as very much a product of the "Colombo 7 set" and – as a nephew of former President J.R. Jayawardene – a part of the country's political establishment, writes Kieran Cooke.

But few doubt the considerable talents of the prime minister. Aged only 44, Mr Wickremesinghe has had a fast rise up the political ladder. There are considerable risks involved in achieving high office.

"We have to take security precautions all the time," says Mr Wickremesinghe. "But I never thought of following any other career."

Mr Wickremesinghe's father, who ran Sri Lanka's biggest newspaper group, was a Christian. His mother was a Buddhist. The prime minister's uncle is an Anglican bishop.

Former President Premadasa, a man of humble origins, was deeply suspicious of the traditional political establishment. But Mr Wickremesinghe survived and prospered during the former president's time, mainly due to his ability, as then minister of industries, to push through much-needed economic reforms.

"We are continuing with Premadasa's policies. There might be a certain change of style; that's inevitable. The opposition accuses us of being elitist. But there are more people in business now than at any time in the past. The opposition talks about socialism but we have introduced real socialism by giving people enough to eat and raising living standards."

Mr Wickremesinghe says that despite opposition from some unions, the government will continue with its privatisation policy. "Union fears are without foundation. We are going about the process slowly and carefully. But I've no doubt that before too long we'll have more efficient, largely privately-run enterprises."

Ranil Wickremesinghe says the privatisation policy will continue

A lawyer, Mr Wickremesinghe became an MP when he was only 28 and subsequently served as deputy minister of foreign affairs.

Despite the assassinations of both President Premadasa and the leader of an opposition party earlier this year, Mr Wickremesinghe says there is political stability in Sri Lanka.

"We have a mature political culture. Premadasa's assassination was a test and we got through it without any major problems."

But the war against Tamil separatists in the north and east of the country is the main issue. There have been indications that the new administration wants to take a harder line on the problem than Mr Premadasa.

"I don't think policy has changed. We have always said we are willing to negotiate but it seems the LTTE [The Liberation Tigers of Tamil Eelam, the main separatist group] only responds to pressure. We are not closing the door to talks but the orders to the army remain the same: to eliminate terrorism and ensure that more and more areas are under government control."

■ POLITICS

A distinct change of style

FORMER President Ranasinghe Premadasa often found Sri Lanka's tabloid press more vicious than the Tamil Tiger rebels in the north of the country or the Pol Pot-style Singhalese nationalist rebellion in the south.

Each Sunday the tabloids would tear Mr Premadasa's reputation to pieces, focusing on the fact that he was not a "goigama" – the farmer caste which has traditionally produced Sri Lanka's political leaders.

Since the assassination of Mr Premadasa in May, the tabloid newspapers have gone quiet. The new head of state, President D. B. Wijetunga, soft spoken and avuncular, does not make a good political target.

Whereas Mr Premadasa was always viewed as an outsider by the political establishment, Mr Wijetunga is a "goigama" from the Kandy hill country.

Mr Wijetunga's prime minister, Mr Ranil Wickremasinghe, is part of the Colombo elite. The English educated professional class is relieved that what is perceived to be the natural political order has been restored.

The new leadership has brought a distinct change of style. Gone is the populism and the showmanship of the Premadasa regime. Mr Premadasa, said to have worked 18 hours a day, was known as a very hard taskmaster. He was also feared by those who had crossed his political path.

Now the political mood is more relaxed. The media is more open. But there has been some continuity. There has been no dramatic change in the direction of government policy. Some of Mr Premadasa's key advisers are still in positions of power. Mr R. Paskaralingam, an important Premadasa confidant and the man credited with persuading the former president of the need for economic reform, is also Mr Wijetunga's secretary of finance.

The big question now is whether the country's new leaders have the strength to carry through tough economic policies, or whether short-term political trade-offs will be made. A budget due in early November will serve as an indicator of the new government's political will.

During his time in office Mr Premadasa did put down – albeit brutally – an uprising in the south. He also tried, and failed, to negotiate a peace with the Tamil separatists. Perhaps most importantly, he made moves to open up the economy, while at the same time launching a much-praised poverty alleviation programme.

Mr Wijetunga has been able to build on that legacy; able to sell Premadasaism without Premadasa.

Less than three weeks after Mr Premadasa's assassination, voters went to the polls in seven of Sri Lanka's nine provinces to elect new provincial councils. The UNP made what was considered to be a surprisingly strong showing in the polls, although it did lose control of the western province, which contains Colombo and more than 25 per cent of the country's 17m people. Most importantly, the polls, which had a 75 per cent turn-out, were peaceful – seen by outsiders as evidence of the resilience and maturity of the country's political system.

The UNP would appear to be secure. The Sri Lanka Freedom Party (SLFP), headed by Mrs Sirima Bandaranaike, a former prime minister, is in some disarray. Mrs Bandaranaike, suffering the after-effects of a stroke, is not as active as she once was although she still commands a considerable personal following, especially in rural areas.

Mrs Bandaranaike's daughter, Chandrika – now chief minister of western province – is at loggerheads with her brother, SLFP MP Anura Bandaranaike. In mid-October, Mr Bandaranaike resigned from the SLFP claiming the party was in danger of being controlled by what he called "discredited Marxists."

Now there is talk that Mr Bandaranaike could join the UNP, the party to which his father, Mr Solomon Bandaranaike, prime minister in the 1950s, originally belonged.

Meanwhile, the Democratic United National Front (DUNF), a breakaway UNP grouping, would appear to have lost its political platform which was almost entirely based on an intense dislike for the rule of former president Premadasa.

After the violence of May, everyone is now hoping for a period of political calm. But already the talk is of presidential elections, due to be held before the end of next year.

Mr Wijetunga, 71, was originally seen as a caretaker president but now shows signs of wanting to stay in office beyond next year's elections.

At the moment, people seem comfortable with Mr Wijetunga. The opposition, more concerned with its own quarrels, holds few political cards.

Mervyn de Silva

■ GEMS INDUSTRY

Old-fashioned attitudes

THE total value of precious gems smuggled out of Sri Lanka could be as high as Colombo's annual foreign aid receipts, says a former governor of the country's central bank and an expert in the gem trade.

If Dr Neville Karunatilleke is right, then "unofficial exports" of Sri Lanka's fabled array of star rubies, cornflower-blue sapphires, tourmalines, moonstones, garnets and dozens of other precious gems, may be worth as much as $300m a year. This would make gems Sri Lanka's largest single export after garments and tea.

Dr Karunatilleke's guesstimate for smuggled rough stones and gems is about double the official 1992 export figure for jewellery, diamond re-exports and gems combined of SLRs6,888m.

As Colombo moves towards a more liberal export-import regime and towards almost complete freedom of exchange controls, the chances are that smuggling will decline to a much lower level.

Perhaps more important than legitimising the trade, a proportion of which is always likely to prove attractive to smugglers and tax evaders, is the need to catapult an old-fashioned industry into the 20th century.

In the 1970s and early 1980s, for example, hundreds of Thai traders bought for a song what Sri Lankans then thought were worthless, milky-white so-called Geuda stones. The Thais took them to Bangkok, subjected them to specialised heat treatment and became the proud possessors of blue sapphires worth up to $5,000 a carat, and often more than one hundred times what they paid for them.

By the time the Sri Lankan industry woke up to the fact it was being cheated, it had lost many hundreds of millions of dollars' worth of sales.

Even though Sri Lankans are no longer giving away their Geuda stones they have been slow to adopt the new technology and over 95 per cent (an estimated 6 tonnes a year) of Sri Lankan Geudas are still being sold to Thailand, mostly smuggled.

As the technology has improved, even high-quality rubies and sapphires are now heat-treated to improve their colour. This can increase their value by four or five times and is now widely accepted in the world marketplace.

In Sri Lanka, traditional attitudes that heating a gem is somehow cheating has meant the industry has been slow to invest in the specialised furnaces needed – a loss that the state Gem Corporation is trying to remedy with a training programme and a campaign to persuade gem traders to adopt the Thai technology.

Some progress has been made but because there is little vertical integration in the industry and many gem cutters operate on a cottage industry basis, gaining access to capital has not been easy.

Current estimates are that 150 small operators are engaged in heat treatment throughout the country, compared to 500 large professional operations in Bangkok alone.

Sri Lanka has also been slow off the mark to add value by using the thousands of tiny less valuable gems in developing its jewellery export sector.

The lack of initiative, poor access to capital and modern jewellery design has been compounded by the recent loss to the Middle East of many of its experienced gem cutters and jewellers.

However, in the past few years about a dozen companies have made an impact on the market, notably Blue Diamond, Eluwalla, Sifani and Zam Gems. Some have specialised in large-scale exports while others, such as Sifani, specialise in adaptations of top-of-the-range jewellery.

Official Sri Lankan exports in jewellery have soared in the last two years from just SLRs94m in 1990 to SLRs310m in 1992. Purchases by foreign tourists, who carry jewellery out of the country unrecorded, could boost the value of the export trade to around SLRs1bn in 1993.

SRI LANKAN STATE GEM CORPORATION
Exports (SLRs millions)

Year	Gems	Geuda[1]	Jewellery	Diamonds[2]	Total[3]
1988	1,425	529	74	–	2,029
1989	1,351	554	77	1,904	3,886
1990	1,840	597	94	2,038	4,567
1991	1,569	634	252	1,986	4,441
1992	1,621	456	310	4,501	6,888
1992	788	223	122	1,523	2,656
1993	900	234	180	3,419	4,733

Notes: [1]Geuda are milky white rough stones, later heat-treated to turn them into valuable gems
[2]Sri Lanka does not mine diamonds. These are re-exports after cutting and polishing
[3]This does not reflect large-scale smuggling and is therefore far below the real figure
[4]First six months only
Source: State Gem Corporation

One notable success story for Sri Lanka has been the cutting and polishing of imported diamonds. In the space of just four years, with foreign capital and help, the industry has grown from nothing to annual exports projected this year at SLRs8bn; up 16 per cent on last year and nearly double that of 1991.

Although added value is only 20 per cent on diamond polishing compared to more than 95 per cent for gems mined domestically, many hope it will presage a new era for Sri Lanka's industry. The most ambitious are hoping the country will follow the Thai road and import rough stones and gems from all over the world, for cutting, polishing and making into jewellery.

To help achieve this goal, parliament has just passed two new acts setting up a national gem and jewellery authority to engage in research and offer training and promotion, and a gem bank to provide access to much-needed capital. Sri Lanka's gem mining, cutting and jewellery business employs about 300,000 people in a country where 25 per cent of the land is said to be potentially gem bearing.

Colombo seems finally to have woken up to the fact that its main potential competitor and teacher, Thailand, is heading towards a business with a total annual turnover of $4bn in 1993 and it wants a much larger slice of the action.

Says Dr Karunatilleke: "Sri Lanka's industry has never been fully exploited because 80 per cent of it has been underground. But with the new bank offering credit and the gem authority providing training I am optimistic that many traders will decide to go legitimate and give us the modern industry we are all looking for."

Richard Cowper

■ Profile: Zam Refai

Business has been kind

"HOW would you like to buy a gem of an island?" giggles Mr Z A M Refai's right-hand man, pushing across the desk a picture of a coconut-palmed paradise, just off the coast of the tourist resort of Bentota, writes Richard Cowper.

Minutes earlier, Mr Refai – or Zam, as he is known in the trade – was pocketing a $30,000 sapphire that had been cut and polished by one of his most skilled employees.

Business has been kind to Mr Refai of ZAM Gems, the company named after his own initials. A Moslem from the coastal gem trading town of Beruwala, 35 miles south of the capital of Colombo, he started business 26 years ago with capital of $1,000 – a paltry sum in a trade where single gems can be worth hundreds of thousands of dollars.

Today, he is a multi-millionaire with five up-market jewellery shops, numerous jewellery-making workshops and a turnover which he conservatively puts at $2.5m a year.

Unlike the country's sophisticated and fabulously rich top 500 gem merchants, who have conducted business for centuries from their mansions in the China Fort area of Beruwala, Mr Refai is a self-made man and he clearly revels in his new-found wealth.

In addition to the magical Barberyn island with its old white British lighthouse, he owns an exquisite blue aquamarine so huge that it is the biggest such gem ever found in this island of gems. At 946 carats, the size of a goose egg, the stone is a museum piece whose value can only be guessed at.

Mr Refai, a trader at heart, says that at the right price he might be willing to sell.

"What would that price be?" I asked.

"It's a huge draw at my most exclusive shop in the Hilton Hotel," he says. "But I might be prepared to accept $250,000."

Such information is rare in what is undoubtedly one of the world's most secretive trades. The easy transportability of gems worth huge sums has made them extremely attractive to smugglers, drug money launderers, tax evaders and those who wish to avoid currency controls – not to mention the *nouveau riche* and some members of the aristocracy.

"How much did you pay for it?" I hazard.

"It took my best man one week to cut and polish it, for which I paid him $2,500 and..." pointing to his brand new four-wheel-drive vehicle... "it cost me less than I paid for this," he says with a laugh.

"Fortune has treated me well. Mr Premadasa [the former president] gave me and all other gem and jewellery exporters an indefinite tax holiday. I don't pay any tax at all," he says.

Until 1985, his sole business was the export of polished and cut gems such as rubies, topaz, moonstones and the famous blue sapphire for which Sri Lanka has been renowned for nearly 2,500 years.

But as tourism came into its own, he expanded into making fine jewellery, using gold and gems and copying western designs. He opened shops in several of Colombo's five-star hotels, opening up a niche in the market that has made him one of the country's top five jewellery exporters.

With an uncanny ability to see the main chance, he has concentrated on the tourist market from Japan, a country which imports more gems and jewellery than any other in the world.

Not all is plain sailing. He is now exposed to the vagaries of the Sri Lankan political climate. After President Premadasa was assassinated in May, Mr Rafai hardly sold a piece of jewellery in his Colombo shops for three months.

But jewellery, although expanding fast, still accounts for just 20 per cent of his turnover and, should an emergency arise, he could always "slip a handful of sapphires into my pocket and sell them abroad for a small fortune."

Political stability is the key to the future and he is looking forward to the day when tourism – now at 400,000 visitors a year – reaches the 1m mark. "Then I shall be a truly rich man," he says with a smile, giving the $30,000 pink padmaraga sapphire in his pocket another twist.

■ Profile: Associated Motorways

Joint ventures bring expertise

FOR many Colombo businesspeople, the war against Tamil separatists in the north of the country seems very remote, writes Kieran Cooke.

"We really don't notice it much down here," says Mr Tilak de Zoyza, managing director of the Associated Motorways (AMW) car industry group.

AMW is one of Sri Lanka's biggest importers of cars and motorcycles, mainly from Japan. But its main business is what is known as tyre rebuilding.

AMW collects used tyres and employs the latest technology to rebuild them. The rebuilt tyres have 80 per cent of the life of a new tyre. AMW's tyre rebuilding facility is one of the biggest in the region.

Mr de Zoyza feels there could be more economic progress if the war ended. But of more immediate concern is government economic policy.

"There has been a remarkable change over the past four years," says Mr de Zoyza.

"Former President Premadasa pushed through a whole series of measures to liberalise the economy. We were given tax incentives to encourage us to buy new machinery and employ more people.

"As a result, business has been investing far more and reaping the dividends. This year AMW will have a turnover of about SLRs720m: double that of three years ago."

Improved investment incentives plus the easing of exchange controls mean that companies have been able to enter into joint ventures with overseas investors, introducing much-needed technology and expertise to Sri Lankan industry.

AMW has recently entered into a joint venture to manufacture tyres with the giant RPG group of India.

It has started another tyre retreading operation with a Malaysian company and Mr de Zoyza is thinking of going into the shoe business, again with a company from Malaysia.

"The whole business atmosphere has changed in recent years," says Mr de Zoyza.

"While interest rates are high – more than 20 per cent – credit is not so tightly controlled as it once was. The loosening of foreign exchange controls has been a key development.

"Not long ago one of the big state banks gave me a credit card with a limit of $10,000. I've never had a credit card in my life. Such a thing was unthinkable only a few years ago."

The AMW group now employs more than 2,000 people. AMW's capital has been increased by its listing on the Colombo stock exchange.

Foreign shareholders control more than 20 per cent of the group's equity.

"We now realise we can't just depend on the home market for growth," says Mr de Zoyza.

"We must export and we are expanding our manufacturing base to make us more competitive in the region."

AMW has several links with Japanese conglomerates. For many years it has been manufacturing motorcycle and bicycle tyres in collaboration with the Japanese Inoui group.

It is also hoping to resurrect an old relationship with Yuasa, the Japanese battery manufacturer.

"The rising yen is creating problems for Japanese business," says Mr de Zoyza. "Companies like ours are building up the necessary expertise and industrial base to offer an alternative, low-cost manufacturing facility.

"Despite the war I'm optimistic about the future."

■ Profile: Lanka Garments

A fast-growing business

MR Shabbir Sangani, head of Lanka Garments, has views which would raise eyebrows among Sri Lanka's economic planners, writes Kieran Cooke.

"We should forget all this business about becoming a newly industrialised country," says Mr Sangani.

"If the economy does take off and we start growing above 5 per cent, then wages are bound to rise. We'll lose our main advantage; the garment industry will go elsewhere and then we'll create more problems than we've solved."

Mr Sangani is one of a new breed of entrepreneurs in Sri Lanka. At 29, he heads a fast-growing, privately-held business employing 1,500, with a turnover of more than $2m last year.

He started Lanka Garments in the mid-1980s with $15,000 capital loaned by his father.

He now has three factories, one on the outskirts of Colombo and two in rural areas, set up under former President Premadasa's industry disbursement programme.

Lanka Garments produces jackets and rainwear for the US market.

Very little of the product content is sourced in Sri Lanka. The fabric for a popular brand of jacket destined for the US market is purchased in China by a South Korean company.

The only thing sourced locally is the thread.

The company's workforce is more than 90 per cent female. Wages are set at a minimum of SLRs2,000 a month. A South Korean has been brought in to help supervise the work.

"She earns about 50 times the wages of a local but has paid her wage by increases in productivity," says Mr Sangani.

Like other garment producers, Mr Sangani feels that Sri Lanka will face growing competition on wages from countries such as Vietnam, India and Bangladesh.

To hedge against any downturn in the garment business, Mr Sangani has diversified into diamonds. A diamond cutting factory next door to Lanka Garments in Colombo now employs 250 workers.

An Israeli technical adviser has been brought in.

The uncut diamonds arrive from dealers in Antwerp and Tel Aviv. They are cut in Sri Lanka and then shipped for sale in Japan.

The next step is to open a jewellery factory. The cut diamonds and the jewellery for their setting will then both be sent to Japan.

Mr Sangani has a half-Japanese Sri Lankan partner who makes the all-important contacts in Tokyo.

"I'm going to stick with these two industries," says Mr Sangani. "In theory, when textiles hits a rough patch, then diamonds will come to the rescue. But I know nothing in business works quite so neatly."

Better field practices have already helped boost tea output, although nobody knows the exact size of the increase

Picture: Tony Kirk

■ TEA INDUSTRY

Gains despite loaded dice

FATE could not have been more cruel to the 22 companies which last year were awarded five-year profit-sharing management contracts to run Sri Lanka's decaying state plantation sector.

When they picked up the reins at 450 government-owned tea, rubber and coconut estates in July 1992, they were well aware that the sector was losing about SLRs5bn ($114m) a year – *just over SLRs400m* a month. Some estimates put losses over the last few decades as high as SLRs50bn.

What the companies could never have forecast was a year in which the worst drought in the living memory of many planters caused output in the sector's most lucrative crop, tea, to fall to just 179,000 tonnes – the lowest level for 36 years.

If that were not pain enough, earlier this year they were forced to absorb a 25 per cent government-imposed pay increase in an industry where wages already account for over 75 per cent of total costs.

In spite of the loaded dice, the companies contrived to make a sharp dent in overall losses by mounting a successful drive to eliminate theft, waste and poor labour management. They saved tens of millions of dollars in stolen tea, fertilisers, wages to ghost workers, bribes to officials and outrageously over-priced transport costs.

Says Mr L.G. Munasinghe, Sri Lanka's *Tea Commissioner*: "Pilferage in the state sector may have accounted for *between 8 to 10* per cent of total turnover."

The companies introduced new financial management techniques, fired some of those caught thieving, sidelined the most inefficient and, most important of all, began the long process of improving agricultural field practices. Some notable gains have already been made. *Average losses for* the second half of last year

This year Sri Lanka is expected to regain its position as the world's largest exporter of tea

were cut sharply to around *SLRs133m* a month, and more dramatically, in the first half of 1993 to SLRs83m a month – just 20 per cent of the average monthly loss when they first took over. Four companies say they hope to make a profit this year.

Equally encouraging is the belief that better field practices have already helped to achieve a *slight boost in tea output*, though nobody can put a figure on the exact size of the increase. This year Sri Lanka is expected to regain its position as the world's largest exporter of tea, after falling into second place behind India in 1992.

According to Mr Munasinghe, production is likely to end the year at around 222,000 tonnes – up about 25 per cent on last year, though not as *high as the record 241,000* tonnes produced in 1991. He believes better used of fertiliser and other improved practises may enable Sri Lanka to boost output to 250,000 tonnes next year, if the weather is favourable.

Further good news for companies struggling to turn their estates round is that Colombo *is expected soon to announce* substantial changes in the contracts awarded last year. These will probably include a decision to extend the contract from five years to 30 years, possibly with the option of a further 30-year extension.

"Before the end of the year, I fully expect to be in a position to grant a new contract, possibly a usufruct contract of *30* years," says Mr Rupasena Karunatilleke, Sri Lanka's minister of plantation industries. The contract, which will be similar to a lease, is tantamount to privatisation. The companies will no longer merely share in the profits – if there are any – but will bear all the risks of any losses too."

The longer contract is vital if companies are to take a long-term view and raise much needed capital to modernise the country's ageing plantations. Many of the tea bushes are 60 years old and of the wrong type, with scores of estates averaging output of just 1,000kg a hectare – less than half that of India and Kenya, Sri Lanka's main competitors.

The expectation is the Asian *Development Bank will come* up with about $60m in low interest loans, which the government will lend to the industry, providing companies put up capital of their own.

Many estates are already improving their finances by diversification. Some have switched a proportion of their land into cash crops, while a *few are looking at the feasibility* of gem mining. Others are selling valuable timber resources, while one company is hoping to build a golf course and another is looking at the possibility of turning an old tea factory into a hotel. All this is heartening news for a sector stifled for decades by the dead weight of a top-heavy management and bureaucracy *that* often seemed hardly to care whether the industry remained solvent or not.

Turning the industry around will nevertheless be an uphill task. Unacceptably high wages are likely to remain a feature for several years to come, while labour agitation in a highly unionised sector has *already manifested itself* in several strikes against management efforts to cut labour costs. Above all, it is in tea that Sri Lanka has the experience and expertise. But tea prices seem so often to favour the industrialised countries at the expense of third world producing nations.

Richard Cowper

■ TEXTILES

Short-term outlook still seems bright

THE growth of Sri Lanka's textiles industry has been impressive. In 1977, textile exports were worth less than $10m. By the mid 1980s, the figure had soared to $280m.

The real growth in the industry has come in the past three years: in 1990, textiles and clothing exports were worth about $500m. Last year, earnings from textiles exports rose to $1.2bn. A healthy 38 per cent growth in the value of textile *exports is projected for this* year.

The rapid expansion of the textiles industry has transformed the *Sri Lankan* economy. A few years ago, agricultural produce – mainly tea, rubber and coconuts – accounted for the bulk of the country's export earnings. In 1992, textiles accounted for 49 per cent of total export earnings and made up 70 per cent of the value of manufacturing exports.

But while the textiles industry has been at the forefront of Sri Lanka's efforts to industrialise its economy there are considerable problems.

Sri Lanka has so far failed to build up an industrial base to service its *textiles* industry. Almost all fabrics, plus many other goods such as zips and buttons, are imported. Imports of *textile goods last* year were worth more than $600m – some 50 per cent of the value of total textiles export earnings.

Textiles, particularly at the lower, less value-added end of the business, is a notoriously footloose industry. Sri Lanka is deeply concerned about competition from lower cost producers. "We are watching the emergence of Vietnam very closely," said an official in the Ministry of Handlooms and Textiles. "With lower wage rates, *Vietnam and Bangladesh* could very quickly mount a challenge to our industry."

At present the minimum wage in Sri Lanka's textile industry is SLRs2,000 (about $40) a month.

Buoyed by the success of the textiles industry, the late President Premadasa inaugurated a programme to encourage 200 textile enterprises to open further factories in rural areas. Serious problems of unemployment in country areas would thus be partly alleviated. Those who set up factories under the programme were given considerable tax incentives plus valuable allocations of export quotas.

To date, officials say about 120 factories have opened up in the countryside, although how *many of these are fully operational* is not clear. The programme's contribution to the overall health of the textiles industry *is questionable.*

Some manufacturers complain that they now have to waste considerable amounts of time and money transporting materials to and from remote areas over often very badly maintained roads. Some manufacturers have opened factories in country areas simply to gain more quotas and take advantage of the tax incentives offered. They often still carry out the bulk of production at facilities near Colombo.

Industry analysts say the quotas allocation under the 200 factories programme has not

Vietnam and Bangladesh are not the only countries which are challenging Sri Lanka's textile industry

been properly supervised. This has caused confusion over quotas with Sri Lanka now producing more than its quota allocation in some categories, less than its allocation in others. There is concern that unless the system is reorganised Sri Lanka could face difficulties in upcoming quota negotiations.

Balanced against these problems, the short-term outlook for the textiles industry still seems bright. The industry is beginning to attract some investments in more value-added products.

Progress is also being made in developing markets for non quota goods such as skirts, housecoats and nightwear. "We have to move upmarket; there is no alternative," said one official.

But for the moment, wages remain the critical factor. Competition at the lower end of the textiles market is intense. In these recessionary times textile buyers are looking even more closely at cost cutting.

Vietnam and Bangladesh are *not the only countries* which are challenging Sri Lanka's textile industry. A big US buyer recently decided to stop *purchasing from suppliers* in Sri Lanka and go instead to the Caribbean, where it could import US-made fabric for finishing and re-export back to the US.

"The next few years should still see industry growth," said one big manufacturer. "But I would be far more cautious about the long term."

Kieran Cooke

■ Company profile: Eskimo Fashions

Wages have changed only a little

ESKIMO Fashions is a hot and dusty one-hour drive away from Colombo. At its factory in the middle of a coconut plantation Eskimo produces winter tights and gloves, mostly destined for the European market, writes Kieran *Cooke*.

Eskimo is fully owned by the Ergee group, one of Germany's biggest textiles companies. Production started in 1982: Eskimo now produces about 18,000 pairs of tights and 6,000 pairs of gloves each day.

Mr Hermann Michael-Lohs, Eskimo's managing director, says that Sri Lanka still has *considerable labour cost* advantages. Wages for the factory's 1,800 workers have changed little in the past 10 years. "In 1982, the minimum wage was SLRs520 a month – now it is SLRs2,000. But in D-Mark terms, because of the devaluation of the rupee, the wage is about the same."

But Mr Michael-Lohs says that Sri Lanka's textile industry is still very underdeveloped, with no industrial base. "We import about 50 per cent of our final product cost. That's high compared to many others – in some companies *imported goods account for* more than 90 per cent of the

A strike in India's textile* industry underlined the need to maintain *considerable stocks

final cost. Sri Lanka is still *mainly a textile producer and* not a manufacturer."

Eskimo imports its yarn from India or Indonesia. Not having a local supply of such goods means that Eskimo needs to keep more than two months of materials in stock to ensure continuing production. A recent strike in the Indian textile industry underlined the need to maintain considerable stocks of material.

"That's a big financial burden and puts our costs up," says Mr Michael-Lohs. "We also have to find storage *space*."

Some design work is carried out in Sri Lanka and the workforce has been quick to learn new skills. But the more sophisticated production is still carried out at another Eskimo factory in Malaysia.

"We have a good labour force here, with good relations between workers and *management*," says *Mr Michael-Lohs*. "But we always have to keep a watch on wages. The moment they go up, we become uncompetitive. As a country tries to industrialise, the textile industry is always one of the pioneering industries. But it's also the first industry to move on when costs start to rise."

The industry has now become the country's third-largest official foreign exchange earner *Picture: Terry Kirk*

TOURISM IN SRI LANKA			
Year	Arrivals	% increase	Foreign exchange earnings ($m)
1966	18,969		1.3
1970	46,247	15.0	3.6
1975	103,204	21.4	22.4
1980	321,780	28.6	110.7
1982	407,230	9.8	146.6
1985	257,456	18.9	82.2
1989	184,732	1.1	76.0
1990	297,888	61.3	132.4
1991	317,703	6.7	156.5
1992	393,669	19.3	198.5
1992*	284,331	19	
1993*	286,359	1	

Notes: * First nine months. Source: Ceylon Tourist Board

■ TOURISM

Back on track after unrest

SUCH has been the revival in Sri Lanka's tourist industry that enthusiastic hoteliers and travel agents are now talking of paradise regained.

After a decade of civil war and unrest which saw tourist arrivals fall to a miserable 185,000, the industry is on course to exceed the figure of 400,000 for the first time since violent ethnic riots left more than 1,000 dead on the streets of Colombo in 1983.

Few would deny that Sri Lanka, with its palm trees and beaches, old colonial hotels, delightful tea plantations and spectacular ancient Buddhist cities, is the perfect winter destination.

Last year, 393,669 people thought just that – an extraordinary increase of 24 per cent on the previous year. The industry has now become the country's third-largest official foreign exchange earner.

After a decade of penny-pinching, hoteliers are pulling out their cheque books. The government has approved the construction of 35 new hotels worth about SLRs6bn. One thousand rooms are under construction and 2,000 more are in the pipeline.

There is still over-capacity in Colombo's five-star hotels but the days when they courted shady Chinese gambling tycoons to set up casinos in their establishments because occupancy was so low, seem long gone.

Sri Lanka has commissioned a tourism master plan from the United Nations Development Programme (UNDP) and the World Tourist Organisation (WTO) for the years to 2001.

Mr M. N. L. Lantra, director of research and planning at the Ceylon Tourist Board, says the draft plan envisages total capital expenditure of about $400m with a target of doubling tourist arrivals to about 850,000 by the year 2001.

To achieve this, room capacity will need to double to just under 20,000 by the turn of the century.

Foreign exchange earnings are expected to increase from just under $200m a year now to $700m by the year 2001 at 1991 prices. Direct and indirect employment in the industry is forecast to grow from about 70,000 now to 136,000.

The plan calls on Colombo to liberalise its air transport arrangements to attract additional foreign airlines and more charter operators.

Among many other recommendations, it urges the government to take account of environmental concerns, such as sewage outlets, and to make a special effort to ensure Colombo is made more attractive. Potential draws such as Galle Face Green and Beira Lake have been allowed to wither dismally, to the consternation of locals and foreigners alike.

There are two causes for concern on the hoteliers' horizon in spite of all the optimism.

Few would deny that Sri Lanka, with its palm trees and beaches, is the perfect destination *Picture: Sarah Murray*

First, the world recession. Tourist arrivals in the first nine months of the year were up about 1 per cent on the same period in 1992 but the past three months have shown a worrying decline of 10 per cent.

Tourists from the UK have visited Sri Lanka in record numbers but those from Germany, Sri Lanka's biggest market, have declined sharply, as have those from France.

Second is the potentially lethal effect of a deterioration in the carefully-balanced security equation.

For the past year, Tamil terrorism has largely been confined to the north of the country, out of bounds to tourists. The number of foreign visitors actually increased in May this year despite the assassination in Colombo of the country's president. But a series of incidents directly involving tourists could undermine overnight all the hard work and investment.

Richard Cowper

■ Profile: Galle Face Hotel

Putting the glitz on faded grandeur

THE press release reads like an obituary for Asia's most venerable and charming hotel, writes Richard Cowper. The new management has "proven experience in developing interactive tourism concepts... and has received international attention for the successful conceptualisation, restoration and redebut of the Raffles Hotel in Singapore," it says.

Upmarket Disney has come to Colombo's Galle Face Hotel.

To the consternation of hotel cognoscenti the world over, Mr Cyril Gardiner, one of Asia's most idiosyncratic and much-loved hoteliers, has signed away day-to-day management of the hotel that has been his passion for 33 years.

In August, Mr Gardiner, a wealthy patrician businessman who bought the Galle Face in 1960 after his GM car business was wiped out by a complete government ban on passenger cars, signed a deal with DBS Land, the Singaporean government-backed company, which owns the Raffles Hotel.

In return for $7m investment in the Galle Face, DBS Land has gained a 25 per cent share of a new joint venture which has been granted a 99-year lease on the hotel and surrounding land. The Raffles has been given a 30-year contract to manage the hotel.

For those who like their hotels well-packaged and easy to assimilate the glitzy Raffles treatment is likely to prove attractive.

But for those who seek an escape from theme hotels with lobby chandeliers and obsequious staff who say: "Have a nice day, sir" and for those who found Mr Gardiner's stately pile on the Indian Ocean near the top of their list, the new Galle Face may prove a disappointment.

Many formed a deep attachment to the faded grandeur of a hotel that outdoes the Taj in Bombay for architectural splendour and the Eastern and Oriental in Penang for dramatic seafront views.

Even the most committed of those who have stayed at the three-storey hotel – opened in 1864 next to Galle Face Green facing the Indian Ocean – would agree that it needs investment.

The grandest ballroom in Asia outside Shanghai does not hide the fact that the hotel's roof is in need of replacement. A complete overhaul of the air conditioning, electrics, plumbing and phone system is necessary, while one virtually unuseable wing needs complete renovation.

But despite all this the hotel works and the high-ceilinged rooms, with ancient barefoot waiters serving stengahs on a terrace the length of two cricket pitches, gives the place a unique magic.

The fear is that the Raffles management, with its driving commercial imperative, and coming from a city where money is king, may end up creating a highly expensive birthday cake out of one that has evolved in a stately fashion over the past 129 years.

Mr Gardiner, a man who gave discounts for non-smokers, never sacked an employee and for decades refused to countenance a shop in the confines of the 70-roomed hotel because it would smack of commercialism, may yet live to rue the day he made the deal.

Or perhaps he is more canny than we can know. With a Dickensian passion for accounts he has never borrowed and last year made profits of SLRs19m. At 71 he no longer has the energy he once had and, as he himself says: "I have to safeguard the Galle Face into the next century. The place needs renovation and investment, but not too much investment."

His deal with DBS ensures that his staff are employed until retirement, that he still retains a controlling share of the joint venture companies' equity, and he still retains ultimate sanction over all physical alterations.

In the first development phase, over the next 12 months, DBS plans to spend most of its $7m on training staff in Singapore, refurbishing existing rooms, restoring the south wing, adding four new restaurants and a shop, a business centre and a health club.

But in the next phase there seems certain to be as many as a dozen new shops and there is already talk of an extension, one of the very reasons some believe that the Raffles lost its ambience in an attempt to capture the hordes of tourists who pass through Singapore on package tours.

The Raffles in Singapore had 1.5m visitors last year – about four times Sri Lanka's total tourist population. Mr Gardiner never liked his hotel too full.

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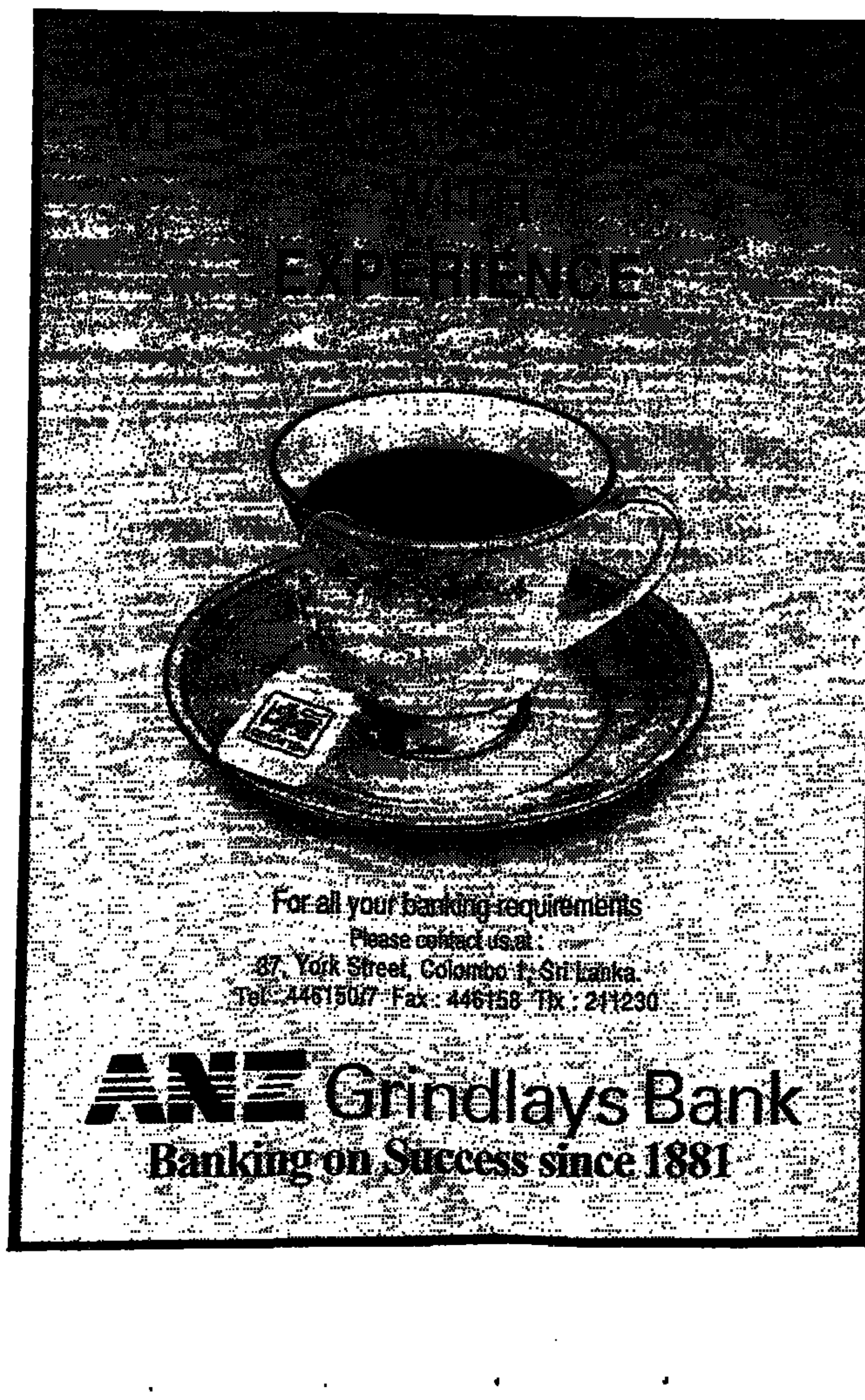


FRENCH FINANCE AND INVESTMENT

Wednesday October 27 1993

Recession persists and the remnants of market protectionism and government controls are still in evidence. However, the Balladur administration's recently launched privatisation programme could, if it is successful, propel the sector into a new era of modernisation, writes **Alice Rawsthorn**

Strains start to ease

WHEN Edmond Alphandéry, *the French economy minister*, this month announced that more than 2.8m private investors had applied for shares in Banque Nationale de Paris (*BNP*), he knew that the first phase of the French government's privatisation programme had been a success.

The success of the privatisations is critical not only to the credibility of Mr Alphandéry and the rest of the Balladur administration, but to the *future of the French financial* system.

The last privatisation drive, launched in the mid-1980s when Edouard Balladur was economy minister, marked the start of the modernisation of France's financial sector by loosening its old links with the state and heralding a new wave of market deregulation.

International investment has since flooded into France. Many of the leading players in *French finance have expanded* their activities into other countries. Yet the path towards modernisation has been impeded by lingering anachronisms from the old era of market protectionism and government controls. Although the humiliating spectacle of the Balladur government's climbdown in the Air France dispute has raised serious doubts among international investors about the strength of its com*mitment to liberalising indus*trial policy, in theory the new privatisation programme should be the catalyst for completing the process that Mr Balladur began.

Despite the Air France debacle, the Balladur privatisations, which could include the sales of the Crédit Lyonnais banking group and three insurance groups, Union des Assurances de Paris (UAP), Assurances Générales de France (AGF) and Groupe GAN, as well as that of BNP, could scarcely have been better timed.

The French economy is still in recession, but seems to have *stabilised*. Although *no sign of* industrial investment responding to lower interest rates has yet emerged and consumer confidence is depressed by the *continuing rise* in unemployment, the consensus among economists is that France will return to growth next year.

"There is no evidence yet of a general economic recovery," said Michel Albert, chairman of AGF. "We're still in a state of stagnation, but there are some positive signs."

It was this promise of recovery that secured the success of the BNP issue. BNP, like the other leading French banks, *has had a hard time over the* past two years. The credit market has been static for the first time since the second world war and the banks have been forced to make hefty provisions because of the rise in business failures and the collapse of the commercial property market.

All the French banks have suffered but by far the most vulnerable has been Crédit Lyonnais, which last year *crashed into the red because of* its exposure to a string of corporate horror stories, from the late Robert Maxwell media empire to MGM, the troubled Hollywood movie studio.

The banks are still under strain, but most analysts suspect the worst is over – even for Crédit Lyonnais. Trading is now more stable, as is the property market and, although *the banks may have to make* more provisions on small corporate loans, they do at least have breathing space to tackle internal issues such as cost cutting and productivity improvements.

"Our performance at the moment is still influenced by the economic situation," said Michel Pébereau, chairman of BNP. "The economy will eventually recover and in the meantime we must concentrate on *becoming more efficient and* on controlling costs."

The insurance industry is in a similar predicament, albeit for different reasons. The main difficulties for the French insurers were intense competition from the banks and specialist *mutuels* groups in the buoyant life insurance business and a steep increase in claims in the less resilient *damage sector. They have also* been affected by falling commercial property prices, which meant they could no longer compensate for their trading problems with lucrative real estate deals.

Those pressures are now easing. Commercial property is still in the doldrums but the insurers, like the banks, are starting to benefit from recent cost cutting and technology initiatives. Life insurance *remains competitive*, but the growth of the *mutuels* seems to have peaked and the market has continued to grow in spite of the recession. Signs of improvement are also appearing in the damage sector, where companies have countered the rise in claims by increasing premiums. François Heilbronner, chairman of GAN, expects the industry *next year to come out of the* red in damage insurance.

As a result UAP, AGF, GAN and eventually Crédit Lyonnais should be able to present investors with convincing recovery stories when their privatisations get under way. They should also benefit, as did BNP, from the high level of interest in French equities on the part of international investors. The Balladur privatisations have come at a time *when US and Japanese* investors are keen to take advantage of their strong currencies *and the US mutual funds are* in the process of internationalising their portfolios.

The level of interest among the French public is also high, as illustrated by the BNP issue. Mr Balladur plans to use the privatisation drive to boost share ownership in France. Last summer's ingenious 'Balladur bond' and the decision to price BNP's shares so cheaply are just two of the tactics he has employed. Further, as *interest rates fall*, equities should seem even more attractive to the public against the *dwindling returns* on bonds and cash savings schemes.

The companies themselves all appear to welcome the prospect of privatisation. "Privatisation won't be a revolutionary process for us," said Mr Albert of AGF. "Don't forget we were a private company for many years before we were nationalised in 1946. We've also been preparing to be re-privatised since 1986 and if it had not been for the 1987 stockmarket *crash we'd have been sold off* six years ago. We've already changed the culture of the company by making sure that all our employees realise that profitability is our goal."

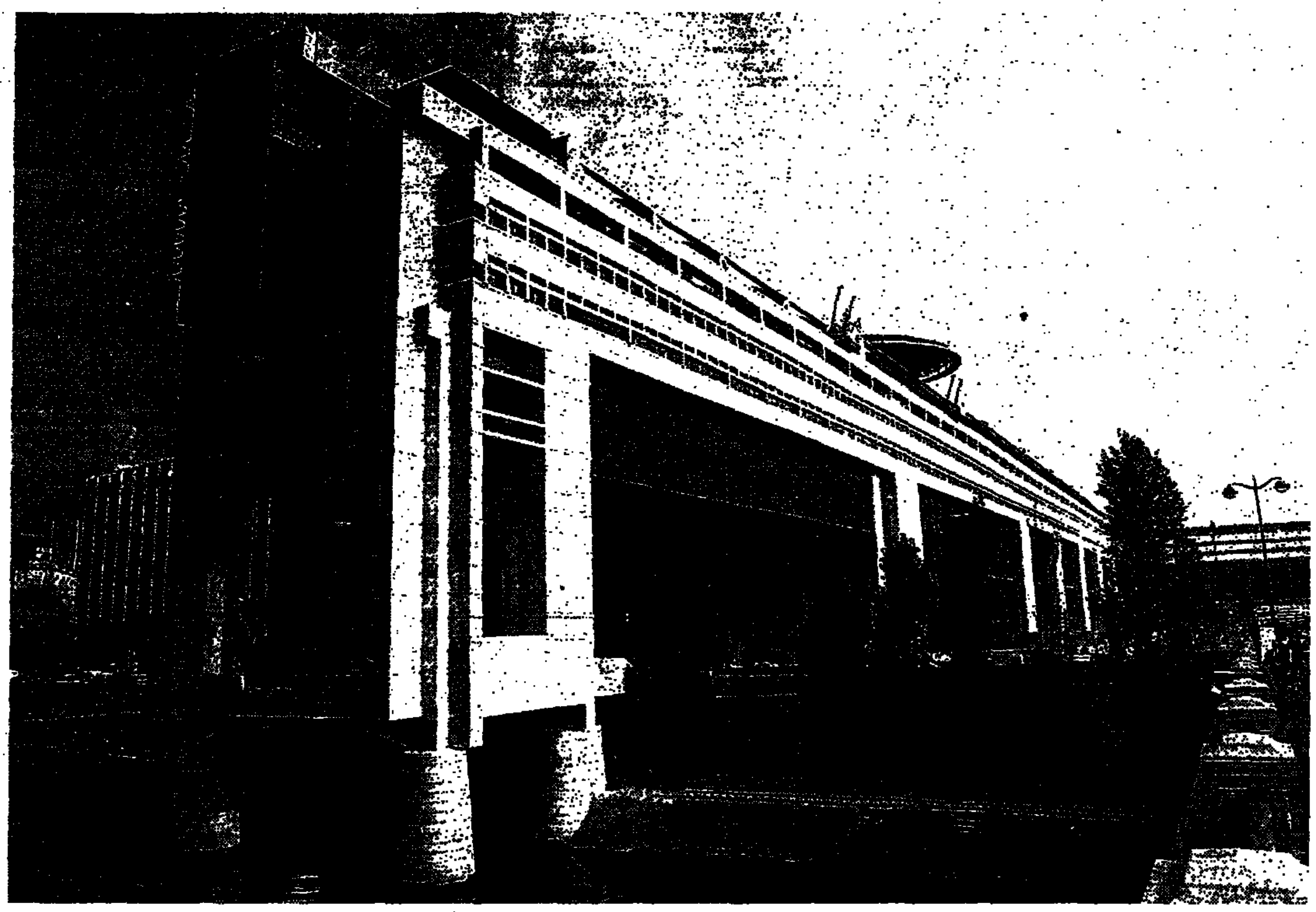
Yet privatisation will herald some changes. The most obvious differences will be that the government will no longer be able to hire – and fire – senior executives, and that the companies themselves should have more flexibility to raise capital by issuing new shares. The banks may also have more freedom to determine their own policies on interest rates and investment.

Moreover, the entire financial system should benefit from the impact of privatisation on the Paris stockmarket. One of the market's main problems has been a lack of liquidity, caused by a shortage of equity and investment. Privatisation will provide an instant, if partial solution by releasing up to FFr45bn (£5.24bn) of new shares on to the Paris market this year and at least FFr55bn next year. It should also help to address the investment issue by bringing new capital from international institutions and the French public into equities.

The next landmark for the French financial sector after privatisation will be pension reform, which will not only provide a profitable source of new business for the banks and insurers but should also include the creation of private pension funds.

Pension reform is still at a preliminary stage. Mr Balladur only recently asked Mr Alphandéry to create a working party to examine the options for the future. It will be years before the French pension funds can achieve the size *and stature of the established* funds in the US and the UK.

Yet the formation of fledgling pension funds is at least a step in the right direction. In the long term, the growth of such institutions should ensure that the Paris markets have the support of the type of powerful independent investors that already underpin the markets in London and New York thereby helping to complete the modernisation of the *French financial system.*



The ministry of economy and finance at Bercy, Paris: the entire financial system should benefit from the impact of privatisation on the Paris stockmarket *Ashley Ashwood*

A more dynamic strategy is needed to set the country on its feet again

Changing economic tune

WHEN Edouard Balladur this spring moved into his opulent new offices at the Hôtel de Matignon, the French prime minister's residence, one word cropped up again and again in his speeches – austerity.

Austerity, said Mr Balladur, was the only way that the government could regain control of the French economy and haul it out of recession. He has since changed his tune. Mr Balladur now accepts that he has to adopt a more dynamic strategy if he is to succeed in revitalising the *economy* – and *stemming* the rising tide of unemployment – before his centre-right coalition comes up for re-election in spring 1995.

The Balladur government has since unveiled a series of reflationary measures – a public works programme, income tax cuts and employment reform – in a desperate attempt to end the recession. The critical question, with little more than a year to go before the 1995 elections, is whether his efforts will be enough.

Mr Balladur has a tough task on his hands. France took far longer to slip into recession than most of its competitors. The economy continued to grow, albeit at a slackening pace, until the final quarter of last year. It has since stayed stubbornly in recession – squeezed by high real interest rates and a strong currency – with a hefty budget deficit and escalating unemployment.

Interest rates have fallen steadily since the centre-right took power in late March. *The franc* has also weakened after the ERM crisis in early August when France, like its fellow European Community member states, was forced to widen its ERM trading bands from 2.25 per cent to 15 per cent.

Yet so far there has been little improvement in France's economic performance. The problems of its trading partners, notably Germany, have undermined corporate confidence. The industrial output index stabilised over the summer, having fallen by an average of 1.9 per cent in the first quarter and 0.3 per cent in the second. But a recent report by Société Générale described the *"apparent stability"* as *"very fragile"*.

Unemployment levelled this summer with the number of people out of work rising in August by just 4,000 to 3.22m, or 11.7 per cent of *the workforce*, compared with average monthly job losses of 30,000 during the spring. But the rate of job losses is expected to accelerate in the autumn. OFCE, the economic institute, expects the unemployment total to reach 3.4m, or 12.4 per cent of the workforce, by the end of the year.

As a result consumer confidence has remained weak with an inevitable effect on expenditure. Consumer spending has also been depressed by the high rate of real interest rates, whereby inflation is significantly lower than base rates, in spite of the recent round of rate reductions, making it more attractive for the French to save, rather than spend their money.

The personal savings ratio, which fell to an average of 10.9 per cent in the boom year of 1987, rose to 12.8 per cent last year and now hovers well above 13 per cent, according to Société Générale.

The Balladur government is trying to reverse the trend. Michel Giraud, employment minister, this summer launched a series of reforms intended to relax France's notoriously strict employment laws. These included making the 39-hour working week more flexible and waiving employers' social security contributions for the first three new workers they hire.

Nicolas Sarkozy, budget minister, this autumn joined the fray by including in his 1994 budget plan FFr19bn of tax cuts, directed principally at the middle classes, and fiscal reforms aimed at shifting French savings towards housing and consumption.

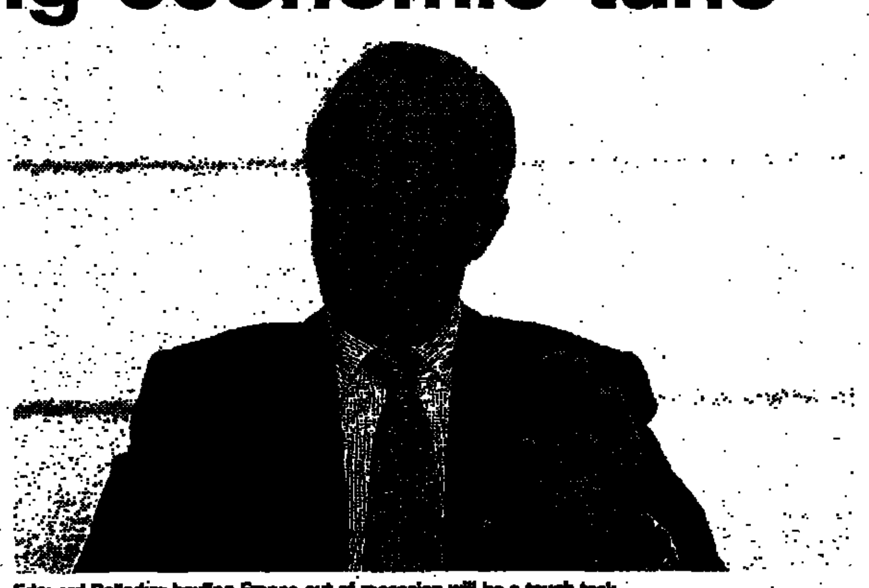
Most economists, and even Mr Balladur's own back benchers, doubt that these will be adequate. But the French government has little room for manoeuvre. One important constraint is the budget deficit, which limits the scope for public sector spending. Mr Sarkozy's official estimates suggest *that the deficit* will reach FFr317bn this year. Private sector economists expect the final tally to be higher.

Meanwhile the government's ability to reduce interest rates is inhibited by the need to protect the franc. The French currency has remained relatively robust since the ERM crisis, buoyed by the *Bank* of France's cautious rate reductions. This policy seems set to continue given that the French authorities are not only anxious about the risk of endangering the franc, but are also keen for the central bank to rebuild its reserves after the ERM crisis and to repay its debts to Germany's Bundesbank. It will be able to accomplish both tasks more easily if the franc stays strong against the D-Mark.

As a result France's economic prospects are pedestrian, at best. Mr Sarkozy hopes to reduce the budget deficit to FFr300bn next year, thanks to FFr55bn of privatisation proceeds and an anticipated increase in French exports which, he expects, to fuel real growth in gross domestic product of 1.4 per cent.

Other observers are less optimistic. Jean-François Mercier, chief French economist at Salomon Brothers, suspects that the economic difficulties elsewhere in Europe, notably in Germany, will impede France's export growth and that domestic demand will remain depressed. He predicts significantly slower growth in GDP of 0.5 percentage points for France in 1994 with a deficit of FFr350bn to FFr360bn.

The OFCE agrees. It is braced for even lower GDP growth of 0.3 percentage points next year with unemployment rising to 3.7m, or 13.6 per cent of the workforce by the end of 1994. Jean-Paul Fitoussi, head of the OFCE, *described Mr Balladur's* reflationary measures as steps in the right direction. But he holds out little hope of seeing the French dole queues shortening before the next elections.



Edouard Balladur: hauling *France* out of recession will be a tough task

The banking industry is looking forward to a year of recovery in 1995

The clouds begin to lift

NOW that the dust has settled after the successful privatisation of Banque Nationale de Paris (BNP), the talking point in French banking circles has moved back to that old favourite, Crédit Lyonnais, and to how much longer Jean-Yves Haberer can cling on to the chairmanship.

Mr Haberer has already hinted that he is on his way out. He recently confirmed that he was considering the offer of another public sector post which is rumoured to be the chairmanship of Crédit National.

The favourite candidate to succeed him at Crédit Lyonnais is Jean Peyrelevade, now head of Union des Assurances de Paris (UAP), the largest French insurance group.

The choice of Mr Peyrelevade looks suspiciously like a calculated piece of political spite on the part of the centre-right Balladur government. Mr Peyrelevade was a socialist appointee, but he is far too influential in French financial circles for the government to fire him.

The chairmanship of one of France's biggest and most glamorous banks is too prestigious a position to be refused, but it also involves the unenviable task of tackling Crédit Lyonnais' financial problems and hauling the bank back into the black.

Luckily for Mr Peyrelevade, or for whoever else takes the helm, the worst may well be over for Crédit Lyonnais and its fellow French banks. The French banking industry has had a tough two years due to the painful combination of a sluggish credit market and the need to make hefty provisions on falling property values and sour corporate loans.

The clouds are now lifting. The French economy is still in recession, the credit market has yet to respond to the recent reductions in interest rates and the corporate sector remains under intense pressure. But the situation has stabilised and recovery is now in sight.

"I feel that we're at the bottom of the economic cycle," said Michel Pébereau, chairman of BNP. "Our small corporate clients are less pessimistic

Leading revival will be a reduction in the high level of provisions

and there has been a slight improvement in the residential property market. The economy ought to recover progressively from early next year."

The revival of the banking sector is likely to lag a little behind the rest of the economy. One catalyst for its recovery will be an upturn in demand for credit, which should start to improve against the backdrop of the Balladur government's steady reductions in interest rates. However the trauma of the recession, the first in France since the mid-1970s oil shocks, is likely to make companies cautious about borrowing money.

Consumers are in a similar state and are likely to remain nervous for as long as the toll of job losses continues to rise.

"It will take time for confidence to recover both in the corporate sector and among consumers," said Sheila Garrard, European banking analyst at Lehman Brothers in London. "There is usually a time lag between the end of a recession and a banking recovery. But this recession seemed to hit the French banks very fast, so they may well recover quickly."

The speed of the banks' recovery could be checked by the constant threat of fresh competition from the French post office and other financial services groups, notably the insurers. Conversely the banks should soon benefit from the impact of the productivity programmes implemented in the early 1990s, when they shed staff and invested in new technology.

However the main trigger for the banks' revival will be a reduction in the high level of provisions they have had to make in recent years. Almost all the banks faced heavy writedowns in 1992 because of the downturn in the commercial property market and the steep increase in business failures among smaller corporate clients.

Crédit Lyonnais, which went into the red last year, has also been burdened by its exposure to a string of corporate catastrophes such as the Maxwell media empire and MGM, the stricken Hollywood film studio.

The property market has stabilised this year. But the rate of business failures is still frighteningly high. Some banks, including BNP and Paribas, have also faced writedowns on sovereign loans, although the provisioning problem was mitigated in the first half because of the banks' windfall trading profits on currency and equities.

Ms Garrard of Lehman Brothers expects the level of provisions to stabilise next year and to return to "a more normal level" next year. "Investors have already written off 1993 for the French banks and, according to recent chairmen's statements, we can expect more of the same in 1994," she said. "But everyone expects 1995 to be a year of recovery."

Meanwhile the banks are adopting a restrained approach on the strategic front. Even Crédit Lyonnais, which pursued an aggressive policy of lending and international expansion under Mr Haberer in the late 1980s, sees the mid-1990s as a period for consolidation.

The new chairman's top priorities will be to stabilise the group and repair its balance sheet so that it is in a suitable state for privatisation.

Marc Viénot, chairman of Société Générale, has made it clear that, although he might expand the group's industrial banking activities, he favours caution on the international front.

Paribas is still licking its wounds by cutting costs and slowly pruning out peripheral interests after the trauma of its first-ever loss in 1991.

Meanwhile Mr Pébereau sees his strategy at BNP as evolutionary, rather than revolutionary. His international plans centre on developing BNP's partnership with Dresdner Bank of Germany. After BNP's privatisation the two banks have been awaiting the European Commission's approval before finalising the terms of their proposed share swap.

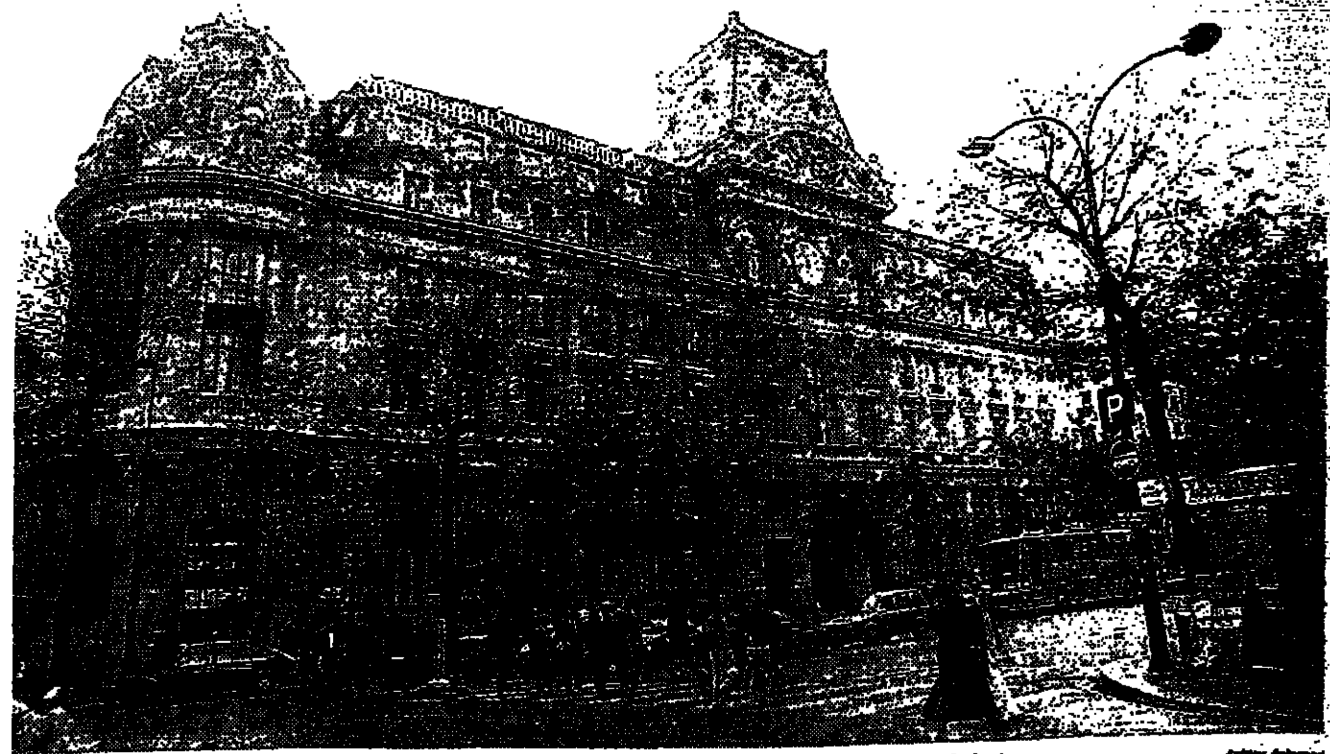
They may then, according to Mr Pébereau, consider linking up with other European banks, albeit on a commercial basis, not through equity exchanges.

"We just couldn't go out and buy a bank in each country within the European Community, it would be too costly and complicated," he said. "The Dresdner agreement enables us to expand within Europe without getting involved with dangerous and expensive investments."

The French Banks

(FFr million)	Net banking income		General loss		Net provisions		Net profits	
	1991	1992	1991	1992	1991	1992	1991	1992
Crédit Agricole	57.5	62.3	35.3	36.7	14	16.5	4.9	5.2
Crédit Lyonnais	46.3	49	33	36	9.6	14.7	3.2	-1.8
BNP	37.9	39.9	27	28.1	8	8.3	2.9	2.1
Société General	35.3	36.4	24.8	25.7	5.4	6	3.4	3.3
CIC*	17.1	18	12.8	13	3	4.9	0.7	0.1
Banques Populaires	16.5	17.7	12.8	13.1	2	3	1.6	1.2
Crédit mutuel	15.1	16.7	11	11.7	1.5	2	1.3	1.5
Banque Indosuez**	10.9	11.3	8.1	7.9	1.5	3.5	0.8	0.1
Banque Paribas	10.5	10.4	8.3	6.5	5.2	1.9	-1.7	0.8
CCF	7.6	7.8	5.2	5.1	1.1	1.3	0.9	0.97

*Part of Groupe GAN. **Part of Suez — Source: Le Monde



Crédit Lyonnais' headquarters in Paris: after a tough two years, the worst may well be over for the banking industry — Ashley Ashwood

Insurers aim to exploit two new areas – pensions and health insurance

Consolidating operations

CLINCHING a deal is almost always important to any self-respecting company chairman, but Jean Peyrelevade, chairman of Union des Assurances de Paris (UAP) was particularly relieved to conclude his company's recent agreement with Suez, the French holding company.

Mr Peyrelevade had for more than four years been trying to persuade Suez to cede its controlling interest in Colonia, the second largest German insurer, to UAP. This autumn he became even more anxious to reach an agreement before UAP's forthcoming privatisation in the face of fierce speculation about his own possible move to become chairman of Crédit Lyonnais.

The main obstacle to UAP's ambitions was Gérard Worms, his opposite number at Suez who had worked for Mr Peyrelevade in the mid-1980s when the latter was chairman of Suez. Whenever UAP and Suez had come close to agreeing a deal in their four years of talks, Mr Worms had hung out for more cash. But Suez has in the past year come under intense financial pressure and Mr Peyrelevade seized his chance.

UAP now owns a controlling stake in Colonia and as a result has leapt up the insurance industry league table to become the second largest insurer in Europe after Germany's powerful Alllanz group. Mr Peyrelevade has made no secret of the fact that UAP's next objective will be to oust Allianz from the top slot.

The triumph of the Colonia deal marked a turning point, not only for UAP, but for the rest of the FFr672bn French insurance industry.

France's insurers had a tough time in the early 1990s. The Big Four insurance companies – UAP, Axa, Assurances Générales de Paris (AGF) and Groupe GAN – all suffered falls in profits last year because of the parallel problems of the depressed insurance market and the effect of the recession on their property portfolios.

Yet the industry is now edging towards recovery. The worst affected area of the insurance market, the damage sector, is showing signs of improvement. The life business is in a position to benefit from the expansion of two new product areas – private pensions and health policies.

Meanwhile the three state-controlled insurers – UAP, AGF and GAN – are all preparing for sale to the private sector as part of the Balladur government's privatisation programme.

The condition of the French insurance industry differs widely from sector to sector. Demand for life insurance has continued to grow throughout the recession as the nervous French have put their spare cash into long term savings schemes.

At the same time the expansion of the *mutuels*, the specialist financial services companies that grew rapidly in the 1980s, has been checked.

"The life insurance market is still buoyant," said Michel Albert, chairman of AGF. "But the banks have taken most of the growth, rather than the traditional insurers, and profitability is depressed because of the level of competition and reductions in interest rates."

These pressures seem likely to intensify for the foreseeable future, but the insurers do hope to exploit two new growth areas – private pensions, following the forthcoming reform of the state pension system, and private health insurance, as the government progressively reduces its contribution to the cost of medical care.

Meanwhile the damage insurance market, which was hammered by the recession, is now improving. The insurers have sustained heavy losses in this sector, partly because of escalating commercial claims and partly because of a steep increase in car thefts.

Until recently these difficulties were aggravated by the insurers' reluctance to risk losing business by raising premiums. However premiums have since risen thereby lessening the pressure on profitability.

"Most companies, including GAN, have been raising premiums," said François Heilbronner, chairman of GAN. "The industry as a whole still isn't technically profitable in damage insurance, but most companies should break even next year."

However, the insurers face a long wait before they can hope to augment the profits from their insurance interests with the proceeds of property disposals as they did in the late 1980s.

Many companies last year had to make hefty provisions on their losses in the property market (generally sustained by banking subsidiaries). The property market has since stabilised, and signs of recovery are beginning to appear in the residential sector, but there is still little scope for lucrative property deals.

As a result the big French insurers see the mid-1990s as a period of consolidation. The emphasis of their domestic operations is to improve productivity by cutting costs. Some companies, notably AGF, have invested heavily in staff training and information technology to streamline their distribution networks. Others, such as Axa, have experimented with new techniques, such as direct marketing, which could eventually create a cheaper distribution system.

The French insurers are also consolidating their international operations. Mr Peyrelevade has said that the Colonia deal will be UAP's last big acquisition for some time, although the group is continuing talks to try to expand its UK business.

Similarly AGF, having succeeded in acquiring a 33.5 per cent stake in Germany's AMB, envisages a more cautious approach to expansion. Mr Albert said it was time for the group to "consolidate our international operations by improving their profitability". He also said he hoped that privatisation would provide an opportunity to cement AGF's new network by enabling its new partners to buy its shares as *noyaux durs*, or "hard core" investors.

Moreover Mr Albert is convinced that the network of strategic stakes and cross-shareholdings amassed by AGF and UAP will be the blueprint for European insurers in the 1990s.

"The AGF of the future will look like a federation, rather than an empire," he said. "There are synergies to be found in information technology, reinsurance and risk control. But the European insurance markets are too different to create huge, centralised groups."

Net profits of Big Four insurers in (FFr billion)

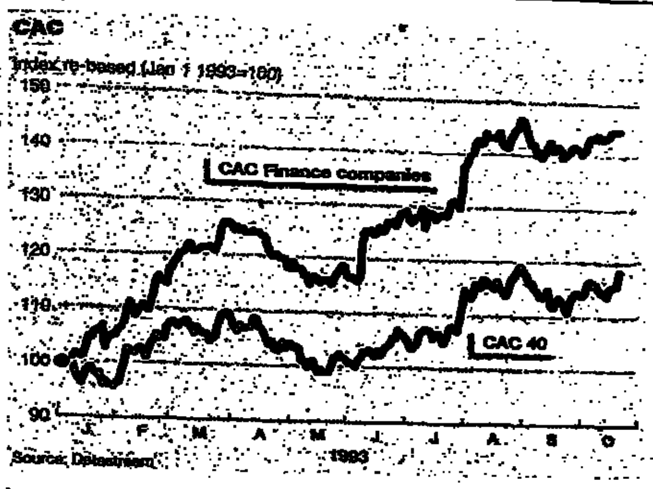
	1990	1991	1992
UAP	4.2	3.8	1.1
AXA	3.3	2.4	1.5
AGF	2.7	2.7	1.5
GAN	2.4	2.3	0.4

Source: company accounts

Turnover of all French insurers

Year	FFr billion
1987	348
1988	412
1989	494
1990	534
1991	596
1992	672

Source: FFSA



It is hoped that the stockmarket will benefit from privatisation with an increase in equity investment

Rekindling the public's interest

IN THE unveiling of his privatisation plans, Edmond Alphandéry, the French economy minister, made clear that his government saw the share sales not only as a means of raising capital, but also as a chance to raise the level of investment in the Paris stockmarket.

The market has long been waiting for such an initiative. The last real boost for French equities was the centre-right government's privatisation drive in 1986 and 1987, which drew international investors into the Paris market and encouraged the French public to switch some of their savings into equities.

International investors have continued to plough their money into France, but the October 1987 stockmarket crash brought the French public's new found interest in share ownership to an abrupt halt. The current round of privatisations offers an ideal opportunity to try to rekindle the public's interest.

The privatisations could not have come at a better time from the stockmarket's perspective. The French financial sector was transformed in the late 1980s by a sweeping deregulation programme in which old monopolies were abolished, closed markets opened and the Matif, now one of the world's largest futures markets, was launched.

However the stockmarket's progress has since been impeded by the survival of old anachronisms such as the *impôt de bourse*, the tax on share transactions, and the strict rules on block trading.

The main issue facing the Paris stockmarket is its low level of liquidity – the legacy of a dearth of equity and capital

which have prompted many traders to execute larger deals in London rather than Paris.

Edouard Balladur's government, like that of the late Pierre Bérégovoy, his socialist predecessor, has tried to address these difficulties with mixed success. Meanwhile the overwheening issue facing the Paris stockmarket is its relatively low level of liquidity – the legacy of a dearth of equity and of capital.

The equity shortage is due partly to the nepotistic structure of the French corporate sector whereby many large companies, including Michelin and L'Oréal, are still controlled by their founding families. The other groups have negotiated so many cross-shareholdings and 'sweetheart' deals that they are not only virtually bid-proof, but only a small proportion of their shares are actually traded.

Another contributor to the equity problem is the power of the state, which still controls many of France's largest companies. The Balladur privatisations represent a powerful, if partial, solution by unleashing around FFr45bn of new shares on to the stockmarket this year and at least FFr55bn next year.

"Liquidity has been a problem for the Paris market, but the situation is getting better," said David Harrington, French market analyst at James Capel in Paris.

"The privatisations should help and we have also seen a great deal of private sector activity this year with convertible bond and warrant issues. By the end of 1993 the Paris market will have been tapped for up to FFr70bn."

Privatisation should also help to assuage the other side of the liquidity problem: the shortage of capital caused by the traditional ambivalence of the French towards equity investment and the state's stranglehold over the pensions system, which means that Paris, unlike London and New York, can not count on an influx of investment from private pension funds.

The forthcoming reform of French pensions, which is likely to involve the creation of private pension funds, should provide a long-term solution to this problem. But in the meantime the privatisations should at least bring in a short-term flow of capital from foreign institutions and the French public.

The increase in foreign investment was one of the main achievements of France's last privatisation drive. The 1986 and 1987 share sales provided an opening for international investors into the Paris market and the proportion of French equities in foreign hands has since increased steadily, rising from 21 per cent to 28 per cent in the last two years alone, according to the Bank of France.

So far the present privatisation plan seems set to bring yet more foreign capital into France. The government was forced after just two days to close the institutional part of its first privatisation, the Banque Nationale de Paris (BNP) share sale, because of strong demand, particularly from US investors.

These investors were undoubtedly attracted by the unexpectedly low price of the BNP shares. The strong dollar was an additional incentive for US investors, as was the strong yen for the Japanese. However,

Recent interest rate reductions and the hope of further cuts should make equities seem increasingly attractive

analysts have also detected an underlying increase in interest in the Paris market.

"This is a great time to buy French shares," said Thierry Tamers, head of North American sales at Baring Securities in Paris. "The economy is probably at the bottom of the cycle and many of the privatisation candidates, like BNP, are recovery stocks."

The successful outcome of the public part of the BNP issue also boded well for the government's prospects of persuading the French public to participate in the privatisations. The French responded well to the mid-1980s privatisations – when 11 per cent of the population bought FFr40bn, or almost a third, of the available shares – but the 1987 crash dashed the government's hopes of boosting share ownership. The number of private investors has since fallen from 5.5m to less than 4.5m.

The Balladur government hopes to reverse this trend. This summer's FFr110bn 'Balladur bond' issue was cleverly designed as a bridge to persuade the French to switch their savings, first into government bonds, and then into privatisation shares. Recent reductions in interest rates, coupled with the prospect of further cuts, should make equities seem increasingly attractive in comparison with the dwindling returns on cash investments.

"Everything is conspiring to make the equity market look very attractive against cash – a savings glut, low inflation and falling interest rates," said James Capel's Mr Harrington. "We're still waiting to see a flow of funds from cash into shares in France. The privatisation programme may be exactly what investors have been waiting for."

■ THE CORPORATE SECTOR

Less grim than signs suggest

ANYONE who read the recent round of interim statements from the heads of large French companies could be forgiven for thinking that corporate France was in a sorry state.

The French economy is still in recession. There is no sign of an upturn in domestic demand and the franc is too strong to trigger an increase in exports. The companies quoted on the CAC-40 Index are now nearing the end of their fourth successive year of earnings decline.

Yet the full picture is not quite as grim as the interim statements suggest. Analysts have already written off 1993 as yet another year of depressed earnings, but they expect 1994 to mark the start of the recovery. Moreover corporate France is in sound financial shape. The corporate sector is now in a positive cash position for the first time in decades, according to the Bank of France.

The corporate sector is now in a positive cash position for the first time in decades, according to the Bank of France

These positive signs have sent the CAC-40 Index soaring for much of this year. Foreign investors, particularly the US and UK institutions, have poured new capital into France. A number of French companies, notably the Axa insurance group and Schneider electrical engineering concern, have taken advantage of their strong share prices by staging capital-raising exercises.

The sepia-tinted analysis of the French corporate sector should not be overstated. Many companies are still under intense financial pressure.

The domestic market has been sluggish for some time but until last autumn, French industry did at least have the consolation of strong export growth, thanks to the combination of years of low inflation and a competitive currency.

Last autumn's currency crisis put a stop to that. The franc's relative strength since September 1993 has not only reduced reported profits from international subsidiaries but has dealt a devastating blow to sales of French products in weaker currency countries such as the UK, Spain and Italy.

The export squeeze is one of the main difficulties facing LVMH, the luxury goods group, which recently issued a profits warning for the full year after announcing a fall in first half profits. Peugeot, the car maker, blamed adverse exchange rates for its first half losses, as did Michelin, the tyre group. Renault, the other major French motor company, saw its recovery checked by a steep fall in interim net profits.

The picture is equally bleak on the domestic front. Consumer spending is still stubbornly static. There is also no sign of an increase in industrial investment, partly because French companies are continuing to bask in the benefits of their heavy investment in the late 1980s and partly because the depressed state of demand leaves them with little incentive to increase capacity.

A number of retail groups, including Pinault-Printemps and BHV, have recently announced reduced interim profits. The banking and insurance groups are still being forced to make steep provisions because of the property crisis and the alarming rate of small company failures. Crédit Lyonnais, the most vulnerable of the big banks, recently reported a FFr1bn interim net loss.

Unsurprisingly, the toll of job losses has continued. The number of people out of work has risen by more than 200,000 since the start of this year to reach over 3.22m, or 11.7 per cent of the workforce. A number of large groups have accelerated their rationalisation drives, including Air France and Michelin. LVMH is embroiled in an ugly battle with the champagne trade unions over its plans to shed staff for the first time in the champagne industry's history.

The Balladur government hopes that unemployment will stabilise next year, albeit at a frighteningly high level. Even the most pessimistic private sector economists expect to see some growth for French gross domestic product in 1994. Corporate profits should also improve. James Capel in Paris anticipates a 40 per cent increase in CAC-40 earnings for 1994 (fuelled mainly by the financial sector) after a 14.8 per cent fall in 1993.

The privatisation drive has triggered a flurry of negotiations over cross-shareholdings and strategic stakes

Corporate activity is already picking up. The government's privatisation drive has triggered a flurry of negotiations over cross-shareholdings and strategic stakes as companies volunteer to be noyaux durs, or 'hard core' shareholders, in the privatisation candidates. The government was spoilt for choice in selecting noyaux durs for Banque Nationale de Paris (BNP), the first privatisation issue. It is now lining up candidates for future sales.

Privatisation has also heralded a series of 'parallel' deals. Renault has finally completed its long-awaited merger with Sweden's Volvo. Union des Assurances de Paris speeded up talks with the Suez holding company to finalise its deal over control of Colonia, the German insurer, before its privatisation gets under way.

Meanwhile Lafarge Coppée and Générale des Eaux have joined the queue of private sector companies raising capital from the Paris markets, so that they can take advantage of any strategic opportunities that arise while the franc is still strong and the stock market is buoyant.

■ SECURITY

Fresh confidence among army chiefs

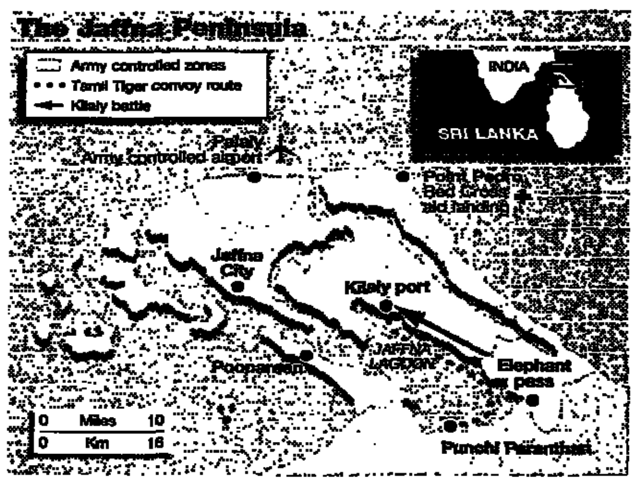
MORE than 300 people were killed and hundreds injured earlier this month in one of the fiercest battles of the 11-year war between Sri Lanka's armed forces and Tamil Tiger guerrillas.

But political and military observers say what was unusual about the battle for Kilaly – a small guerrilla port on the edge of the Jaffna lagoon – was not the scale of the action but the fact that seven Sri Lankan army officers were killed in the fighting.

Army officers, members of a once largely ceremonial force, have not been noted for leading from the front. But after nearly a year of inactivity following the deaths of several senior commanders in a landmine explosion, there is now a new grit and determination at the top in Sri Lanka's 80,000-strong army.

The country's senior military commanders, confident they have the country's troubled Eastern province under control, say they have at last been given the go-ahead to retake the rebel-held northern peninsula of Jaffna, from which they were expelled in humiliating circumstances in 1990.

This confidence appears to be percolating down to even the most battle-weary of front-line officers. President D. B. Wijetunga – angered by earlier political prevarication, the assassination in May of President Ranasinghe Premadasa and the high cost of a war that has claimed 32,000 lives – has publicly vowed to crush terrorism.



Not for him the policy of his predecessor who accomodated guerrillas in five-star hotels. Mr Wijetunga appears to believe it is not possible to negotiate with Mr Velupillai Prabhakaran, the autocratic and militarily brilliant leader of the Tigers. "There is no ethnic problem in the north, only terrorism," says Mr Wijetunga.

Defence Department officials refuse to say when the main offensive across the war-torn Jaffna peninsula – also home to about 600,000 Tamil civilians – is likely to be launched. But military commanders hint that it could come next year.

The army has already started building up its strength. Ten thousand new recruits are under training and more are expected. The total complement may end up at about 100,000 men.

The military plans to buy helicopter gunships, landing craft and fast patrol boats for the confrontation with an estimated 3,000-4,000 well-armed and trained guerrillas who have been fighting for an independent Tamil homeland.

Part of the explanation for the more determined political will in Colombo, and the army's new confidence, may lie in the recent success the military has had in bringing an element of normality back to the country's troubled Eastern province.

Less than three years ago, the province's two main cities of Trincomalee and Batticalore were in rebel hands and large tracts of the mixed Tamil, Moslem and Singhalese province were no-go areas to the army and the civil authorities. Today, most of the province is under government control, at least during the day, and many Tamil Tiger guerrillas based in the area appear to have fled north to the Jaffna peninsula.

The government is planning to hold local elections in the Eastern province in February and, later in the year, a referendum on whether to merge with the country's northern province. If local elections are successful, tens of thousands of Sri Lankan troops could be released for duty in Jaffna.

A young soldier guards the Palaly perimeter, just eight miles from Jaffna City

Picture: Richard Cowper

President Wijetunga, who is also Sri Lanka's finance minister, is intent on trying to catapult his country into the ranks of the newly industrialised nations by the beginning of the next century, and is only too well aware of the heavy economic toll the war is taking on a country where many still live below the poverty line.

To finance soaring war costs the government has recently been forced to impose a special defence levy of 3 per cent on all transactions, operating in a manner similar to value added tax. This year, direct military expenditure is expected to total more than SLRs20bn – about 15 per cent of the budget – but at least the same amount again is spent on feeding and rehabilitating the war-torn civilian population in the north and east.

Thousands of foreign investors have been frightened away by the fighting and many believe the number of tourist arrivals could climb to more than 1m within a few years if the war was ended. The economy of Jaffna, once the biggest supplier of fish and cash crops in Sri Lanka, is at a standstill and tourists no longer visit the East with its fabulous beaches.

President Wijetunga appears to be willing to stake all on the attempt to recapture the Jaffna peninsula guerrilla stronghold by force in an attempt to bring the war to a swift conclusion.

A brief glance at the map would seem to suggest that the army is in an excellent position to launch an offensive. It has a series of army-controlled zones ringing the peninsula: at Palaly in the north it controls Jaffna city's airport in a zone 20km wide and 5km deep; across a sunken bridge to the west of the city it controls a number of sizeable islands; and to the south-east it has cut off the peninsula from the Sri Lankan mainland by linking its Elephant Pass army base to the sea.

But the war in the north is a classic guerrilla action, fought by the most tenacious and fanatical of men and women, as the recent battle of Kilaly showed. On the second day of the army advance from its base at Elephant pass, a carefully dug-in group of 1,000 guerrillas took the Sri Lankan forces by surprise and in bitter hand-to-hand fighting killed 118 soldiers.

Hardcore guerrillas, led by a daring military strategist, may number little more than 5,000 throughout Sri Lanka, but they were able to defeat 120,000 Indian troops in the late 1980s. Every combatant carries a cyanide pill around the neck, which they swallow rather than allow themselves to be taken prisoner alive.

There may be fewer guerrillas, and less well-trained, than when they pushed the Indians out and when they controlled much of the Eastern province, but they remain as ruthless and are still able to assassinate politicians and military commanders.

There is some evidence they may no longer have such fierce support from the Tamil population in Jaffna. Creation of Tamil Eelam (the rebel's free state) is as far away as ever and some locals have dared to speak out against a guerrilla force, whose tax collecting ability at home and abroad, is legendary. But after a decade of indoctrination most ordinary Tamils in Jaffna still fear Sri Lanka's "Singhalese Buddhist army" more.

Even if Tamil civilians did not fight voluntarily they might be forced into battle on the side of the guerrillas. It is by no means certain that the Sri Lankan armed forces could march into Jaffna city without killing on the way tens of thousands of civilians in the densely-populated province.

House-to-house fighting in the city could be even bloodier, and the question no one seems able to answer with confidence is whether the army yet has the numbers, ability and determination to retain control of the peninsula once it has marched in.

Richard Cowper

■ The battle for hearts and minds

Humanitarian effort to feed civilians

WHEN Colombo put down in bloody fashion a Singhalese nationalist uprising in 1989 it soon found itself having to contend with a volley of international condemnation. Its systematic abuse of human rights also alienated many of its own people, writes Richard Cowper.

Today, Sri Lanka is still fighting a guerrilla war but it has put greater efforts into winning hearts and minds at home and abroad.

The country is now known overseas for its unique humanitarian effort in providing virtually all the food and necessities to more than 500,000 Tamil civilians living in the rebel-controlled Jaffna peninsula, where Tamil Tiger guerrillas have been waging an 11-year struggle for an independent homeland.

"Normally, civilians trapped in guerrilla-controlled areas have to find their own food," says Mr Dominic Dufour, head of the International Committee of the Red Cross (ICRC) based in Colombo.

"The government has realised that no rebel with a Kalashnikov ever starves. But this programme is unique. It's the only country in the world where you can officially mail a letter from the capital to a rebel stronghold."

The government started the programme in 1990 and now spends more than $500m a year, despatching an average of 10,000 tonnes of food each month to Jaffna in a fleet of cargo ships under the supervision of the ICRC.

The food is distributed free to about 240,000 people who have been displaced from their Jaffna homes. The rest is sold in shops to civilians and guerrillas alike, under the watchful gaze of highly-efficient Tamil Tiger tax collectors.

Mr Christie Silva, in charge of the programme at the Ministry of Reconstruction and Rehabilitation says: "It's true we do not want hundreds of thousands of civilians fleeing south. But neither do we want to see starvation.

"We have to think of the future: after all, they are our people; they are also Sri Lankans."

No one is pretending the government is without fault. There are reports of malnutrition in some areas of Jaffna. A ban on diesel shipments, to deny guerrillas fuel for their vehicles, means there is a power blackout for most nights of the month.

The country's 80,000-strong army sometimes oversteps the mark in its bitter struggle to recapture large areas of the north and some patches of the east which are still controlled by the guerrillas.

In a visit this month to the Palaly army-controlled zone, just north north of Jaffna city, I saw several night-time bursts of 150mm howitzer shells. In an area so densely populated anything less than perfect accuracy is likely to kill or injure non-combatants.

Reports of civilian Tamil deaths by army shelling are not uncommon.

But in the war for hearts and minds, there is some evidence that the government may be winning. A proposal to hold local elections in the country's troubled eastern province is seen as a further step towards normality in an area once largely controlled by the Tamil Tigers.

In the north, the growing financial predations of the guerrillas against a hard-pressed and besieged civilian population are beginning to take their toll.

Some Tamil civilians appear to have become heartily sick of the war and might even welcome a return to civilian control.

But Mr Velupillai Prabhakaran, the ruthless Tamil Tiger leader, does not appear to be willing to negotiate a political solution and Colombo therefore sees itself compelled to pursue a military one.

All the hard-won gains could disappear overnight if the army attempts to recapture the Jaffna peninsula, as it is threatening to do.

Thousands of Tamil civilians might be killed and the Tigers would do everything in their power – including using human shields – to ensure that Sri Lanka's image was again tarnished in the eyes of the international community.

■ Co-operation with India

New Delhi has score to settle

OPERATIVES of New Delhi's secret service Special Investigation Team (SIT) set up to track down the killers of Mr Rajiv Gandhi, the former Indian prime minister, are now regular visitors to Colombo, writes Mervyn de Silva and Richard Cowper.

SIT is working closely with Sri Lanka's police and intelligence services and its mission is clear: seize or kill Velupillai Prabhakaran founder and commander of the separatist Liberation Tigers of Tamil Eelam (LTTE) and the man they are convinced master-minded the assassination of the Indian prime minister.

Mr Gandhi was killed in May 1991 by a young female Tamil suicide bomber from Sri Lanka at an election rally in the southern Indian city of Madras. The *modus operandi* was very similar to that used by the LTTE to murder Sri Lanka's President Premadasa at an election rally in Colombo in May this year.

The co-operation between New Delhi and Colombo in this and other security areas is a far cry from the last decade when India operated a policy aimed at destabilising her tiny southern neighbour.

Today, New Delhi no longer supports and arms Tamil Tiger guerrillas. It fears that it might end up with its own rebel movement in the fractious southern Tamil state of Tamil Nadu and is taking a tough line against LTTE arms smuggling.

Earlier this year, the Indian navy captured and destroyed a trawler in the Palk Straits, a 20-mile strip of water that separates Tamil Nadu and Sri Lanka's Jaffna peninsula. As well as arms and explosives, on board was Prabhakaran's right-hand man, known as Kittu. He and a number of other senior LTTE commanders died in the incident in circumstances that have never been fully explained.

The loss of Kittu is said to have been a heavy blow to the rebel leader. Prabhakaran is said to have placed great reliance on Kittu as one of the few commanders he could trust.

So deep is his fear of New Delhi that he recently placed Mahattya, his deputy, under house arrest in Jaffna as a suspected "Indian agent."

All this seems an age from the early 1980s when Rajiv's mother, Mrs Indira Gandhi, ordered RAW – India's equivalent of the CIA – to arm and train cadres of a tiny Tamil rebel movement in secret Indian camps. The close relationship began to break down when Rajiv – who succeeded his mother as prime minister after she was assassinated by her Sikh bodyguard – signed an Indo-Sri Lankan peace accord in 1987. An Indian peacekeeping force was despatched to Jaffna to force a settlement on the Tamil Tigers.

India and Mr Gandhi were to pay dearly for this change in policy. With just a few thousand guerrillas, Prabhakaran engaged and drove out an Indian army of 120,000 men. At least 7,000 Indian soldiers died and many more were wounded before the pullout came in 1990.

In parts of Tamil Nadu – the traditional Dravidian enemy of the Buddhist Singhalese – the Tamil Tigers are still seen as heroes. But New Delhi has a new foreign policy of regional co-operation and a very deep personal score to settle with the man who brought to a premature end the reign of India's most famous political dynasty.

FINANCIAL TIMES

COMPANIES & MARKETS

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Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Goldschmidt	680	+	40	Air Liquide	817	+	18
Porsche	794	+	19	Docks de France	699	+	23
Varta	325	+	8	Imetal	530	+	16
Falls				Schneider	368	+	13
Bayer-Hypo	477	−	10.5	**Falls**			
Kaufhof	538.5	−	13.5	Cap Gemini	172	−	8.1
Rheinelektra	1102	−	51	Havas	473.5	−	10.5
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Pharmos Res	16¾	+	2⅝	Bank Of Okinawa	6290	+	280
Falls				Nitto Seiko	594	+	34
Alum Co America	70	−	¾	**Falls**			
Eastman Kodak	58⅝	−	⅝	Nihon Seiko	238	−	26
Minnesota Mín	105	−	¾	Shin Nippon Air	1780	−	180
Nat Health Labs	13½	−	1⅞	Showa Tansan	521	−	59
RJR Nabisco	5⅝	−	⅛	Taiyo Kaiun	210	−	25

New York prices at 12.30.

LONDON (Pence)							
Rises				Sotheby's A	938	+	50
AAF	23	+	3	Thorpe (FW)	148	+	7
Adwest	177	+	9	**Falls**			
Aminex	61	+	3	Betterware	192	−	23
BBA Group	179	+	12	Caird	7½	−	4½
BMSS	131	+	5	Ferranti Int	2¼	−	¼
Chestrfld Prop	558	+	20	Glaxo	601	−	23
Community Hosp	239	+	11	Monarch Res	169	−	8
Courts	785	+	42	Norbain Elec	256	−	19
Firstech	245	+	21	Sleepy Kids	62	−	3
Honeysuckle	75	+	4	Wellcome	812	−	22
IWS A	68	+	5				
Logica	261	+	17				

Sales stabilise but Big Blue's structure still 'uncompetitive', reports **Louise Kehoe**

IBM cost-cutting checks losses

LOSSES at International Business Machines were lower than expected in the third quarter, as revenues stabilised and cost-cutting began to take effect.

Nonetheless, Mr Lou Gerstner, chairman and chief executive, *said:* "The company's cost and expense structure remain uncompetitive. During the third quarter, aggressive internal taskforce work took place to identify additional areas where our costs can be reduced."

IBM could return to profitability "as our gross margins increasingly match those of the rest of our industry. I am confident IBM is on the right track," he said.

Net losses for the quarter were $48m, or 12 cents per share, better than analysts' predictions. Earnings were boosted by a $34m tax benefit. In the same period last year IBM reported a net profit of $86m, or 15 cents a share, before restructuring charges, but a loss of $2.8bn, or $4.87 per share, after them.

The decline in revenues was halted with the company making $14.7bn, similar to the second quarter. IBM said strong personal computer sales and a slower rate of decline in mainframe computer sales had helped stabilise the figure. "Although our overall results are clearly unsatisfactory, the third quarter included some encouraging signs," Mr Gerstner said. "Our total revenues held steady year-over-year and our overall gross margin and hardware gross margin have remained essentially flat for the past four quarters."

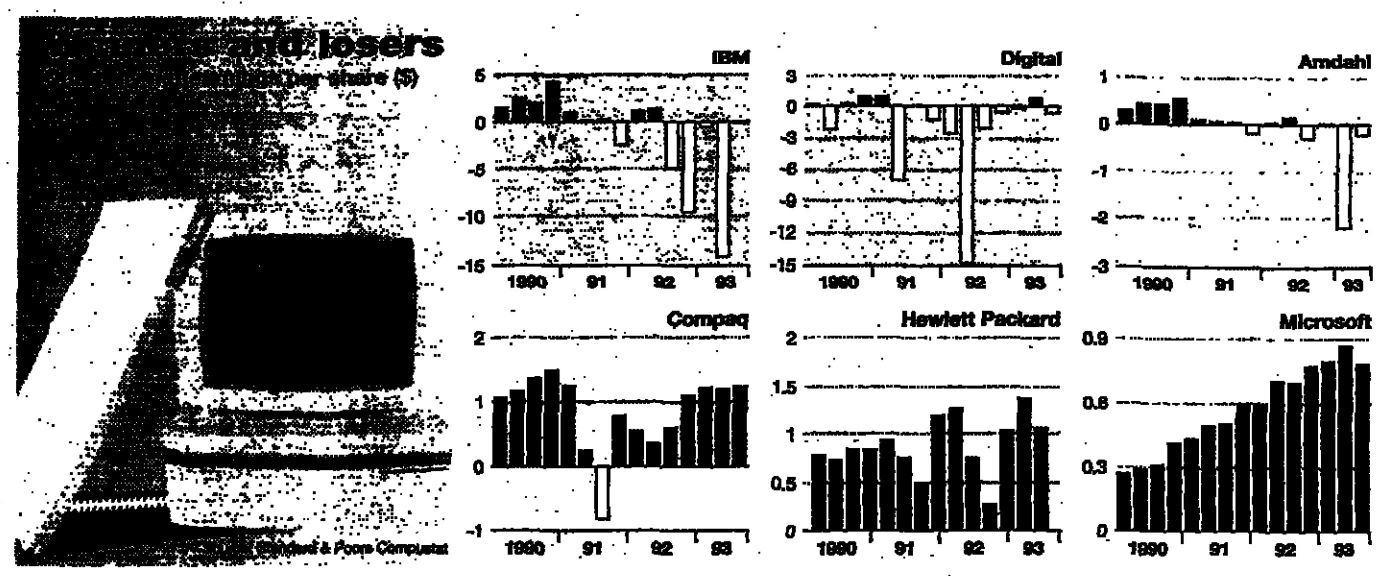
Sales of computer hardware fell just 1 per cent on last year's third quarter at $6.96bn. Analysts had predicted a decline of about 10 per cent. But revenues from rentals and financing fell 14.2 per cent to $1bn, and software revenues also declined. These trends reflected the impact of declining mainframe computer sales on IBM's business. Service revenues rose 26.5 per cent to $2.3bn.

IBM's third-quarter gross profit margin was 38 per cent, down from 46.1 per cent. "We believe our gross margins will continue to be under pressure," Mr Gerstner said. The squeeze was felt in both personal computers and services, two high revenue growth segments.

Similar trends have taken their toll on other US computer manufacturers. Last week Digital Equipment reported heavy losses and Amdahl has warned it expects to report a substantial loss. Apple Computer, which reported its results earlier this month, also saw gross margins fall sharply.

IBM's operating expenses fell 11.8 per cent as the company continued to shed workers. The staff totalled about 267,000 at the end of the quarter, down 41,000 from a year earlier. By the year-end the company plans to cut back to 255,000 workers.

Revenue for the first nine months was $43.3bn, down 3.7 per cent from $45bn. Net losses before restructuring charges were $373m, or 70 cents per share. After charges the loss was $8.4bn. In the same period last year, IBM reported net earnings, before charges, of $1.5bn or $2.56. After charges, losses were $1.4bn or $2.46.



DnB out of the red and aiming at NKr1bn

By Karen Fossli in Tromso

DEN NORSKE Bank, Norway's biggest bank, yesterday returned its best result since it was formed from a merger in 1990 between Den norske Creditbank and Bergen Bank.

The nine-month net profit of NKr699m ($100m) compared with a NKr2.46bn loss in the same period last year in the wake of the nation's banking crisis. The group forecast a net profit of at least NKr1bn for the year.

The sharp turnround was due mainly to the one-off effect of a fall in domestic interest rates *which helped push up net interest* income by NKr593m to NKr4.01bn, partly because of a plunge of NKr2.81bn to NKr7.77bn in interest expenses.

Other operating income – gains on securities, foreign exchange and other financial instruments – doubled to NKr2.65bn, and operating expenses were cut by NKr241m to NKr3.36bn.

Mr Ole Lund, DnB chairman, said the crisis had passed for the bank but that loan losses and the level of non-performing loans remained unacceptable. Losses on loans and guarantees fell by NKr754m to NKr2.534bn as the volume of non-performing loans declined by NKr500m to NKr11.6bn.

In the third quarter, loan losses declined to NKr820m from NKr1.17bn in the second quarter.

The bank aims to raise its core capital – through a share issue in the first half of next year – from NKr6.3bn, or 4.5 per cent of risk-weighted assets, to 5 per cent and then to 6 per cent.

The board intends to boost the *bank's foreign ownership quota* to a maximum 33.3 per cent from 12.5 per cent.

The state has injected an estimated NKr1.675bn in fresh share capital into DnB in the past three years and holds a 69 per cent stake. It has also supplied NKr3.5bn in preference capital which could be converted to share capital, bringing its ownership in the bank to more than over 80 per cent. Earlier, the state wrote off an injection of preference capital of NKr1.25bn.

Mr Finn Hvistendahl, group *managing director,* said the current market valuation of the bank indicated the government would be able to recover all of the capital provided to DnB, "and possibly more", depending on the bank's share price at the time of the phased sell-off to the public.

Swedish opposition grows to Volvo/Renault merger

By Hugh Carnegy in Stockholm

OPPOSITION mounted in Sweden yesterday to Volvo's proposed merger of its vehicle manufacturing with Renault of France, despite a detailed defence of the plans by the company.

United trade union support for the deal cracked as 900 Volvo engineers called for the merger to be postponed until after Renault was privatised. A committee representing more than 5,000 white-collar workers decided to use their small shareholding to vote against the accord at the November 9 extraordinary general meeting.

Two influential newspapers also voiced their opposition.

Mr Mats Svegfors, editor of Svenska Dagbladet, the respected conservative daily, wrote that if necessary the government should step in to prevent Volvo, the country's leading manufacturing group, falling under French control. Dagens Industri, Sweden's leading financial daily, also said the merger should be delayed until 1996, after Renault had been freed from state control.

A spokesman for Volvo acknowledged that momentum was *building against* the merger, but said it was not clear that Volvo shareholders shared this view.

The company circulated a 66-page document to shareholders saying the merger was a "logical and necessary extension" of a three-year-old alliance between Volvo and Renault. It said Volvo's 35 per cent share in the merged company would be "an important cornerstone" in a radically restructured Volvo which would broaden its interests to include a 100 per cent share in *the cash-rich Branded Consumer* Products, now part of Procordia, a food and pharmaceutical group jointly controlled by Volvo and the Swedish state.

Mr Pehr Gyllenhammar, Volvo's chairman, insisted Volvo would retain a "major influence" in the merged Renault-Volvo company despite the 65 per cent weighting in favour of French interests. He said Mr Lennart Jeansson, head of Volvo cars, and Mr Karl-Erling Trogen, head of Volvo *heavy trucks, would* respectively become chief financial officer and head of trucks and buses in Renault-Volvo on a five-man management board headed by Mr Louis Schweitzer, Renault chief executive.

Mr Gyllenhammar said Renault was making the biggest-ever foreign investment in Sweden and was hardly likely to damage this by running down Volvo's Swedish base. Volvo would be contributing to the process of building Europe. "We have to realise that such work requires both giving *and taking."*

The Swedish small shareholders' association which has led opposition to the merger, dismissed the Volvo leaflet, saying it gave no clearer picture of the valuation of Volvo's assets in the merger.

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Investors angry at Ryan's GPA $2m

By Roland Rudd in London

MR TONY RYAN's compensation could total $2m for loss of office from GPA Group, the aircraft *leasing company being rescued* from bankruptcy by GE Capital, of the US.

The proposed pay-off so outraged some GPA shareholders that they threatened to veto the deal. In response Mr Ryan agreed the payment should go to arbitration by a senior lawyer.

He is leaving the Shannon-based company he founded in 1975 to become chairman of the GE Capital subsidiary, GE Capital Aviation Services, which will manage GPA's assets.

His contract as chairman and *chief executive of GPA, which* runs until the July 1996, provides for an annual salary of not less than I£250,000 ($362,000) Pension contributions and compensation for loss of office are understood to take the total package to $2m.

However, some shareholders, threatened to withhold their support from the GE agreement unless Mr Ryan's compensation was settled by a third party. GPA, saddled with debts of $5.8bn, has seen the value of its *shares collapse from a high of $32* to less than $1.

The pension fund of the teachers of the state of Pennsylvania – the Public School Employees' Retirement system (Psers) – which two years ago subscribed to a preference share with a conversion price of $36, was particularly incensed.

Mr John Lane, Psers' chief investment officer, yesterday said "it remains to be seen" whether Mr Ryan would get his $2m.

One banker said: "The question of Mr Ryan's compensation *caused a lot of unease among* shareholders but his contract clearly stipulates that he is owed $2m." A GPA spokesman said: "The matter is still being decided by arbitration."

Mr Ryan's pay-off is no longer threatening the GE *deal,* which may be signed this week.

Barry Riley

On derivatives, conjurors and rocket scientists

When derivatives come out of the rocket scientist lab into the domestic retail market journalists start to get edgy. We do not believe in magic, although we do know there are some clever conjurors around.

A few weeks ago I expressed reservations about the promises attached to some of the high income retail savings products *being launched in the UK* to attract income-starved investors. One of them, the Hypo Foreign & Colonial Higher Income Plan, yielding 10 per cent, has attracted about £400m since March.

Its success has triggered the arrival of a similarly structured rival from Morgan Grenfell. Briefly, this scheme works by *leveraging its income* through writing options. Just over half the assets are invested in UK blue chip equities, the rest in loans. On top of the resulting overall 5 per cent yield, the fund can generate 6 or 7 per cent a year by taking in premium from over-the-counter options – puts and calls – against its portfolio. It thus loses much of any capital *growth,* but buys other options to protect itself against general market falls.

This is an ingenious arrangement, but it looks more like a trading operation than an investment portfolio. What are the risks? Even if they are well designed, derivatives trading programmes can fall foul of poor liquidity or counterparty risk. I asked *Morgan Grenfell the source* of the OTC options, and was told that the fund managers had signed a confidentiality agreement. So much for transparency.

In fact there need be no secret. The options are being created by the equity derivatives unit of Swiss Bank Corporation in London; effectively, this bank's wholesale market services are being turned into retail products by Hypo F & C, Morgan Grenfell and others.

An earlier range of retail products focused on guarantees of various kinds – for instance, that the FT-SE 100 Index would be at *least matched at some date in the* future – but falling interest rates have made it more difficult to design attractive guaranteed products, which have relied on using income to buy derivatives contracts. At the same time, however, an opportunity to launch high income products has arisen, using derivatives to generate the kind of yield *now so* sorely missed by savers in deposit-taking institutions.

The future will always spring more surprises than the past

Innovation may only just be beginning. On the wholesale market SBC lists 15 varieties of equity option contracts, including as-you-like options, exploding options and deferred strike options. But how reliable is all this? Extensive backtesting *investigations are conducted into* how products such as the Hypo F & C fund would have performed historically. Apparently it would have sailed through the 1987 crash quite happily. But the future will always spring more surprises than the past.

The doomsters are easy enough to find. The Bundesbank last week reflected gloomily on the possibility of a chain reaction leading to disaster if problems in derivatives were to lead to a collapse of liquidity in the cash markets. Earlier in the month Mr Henry Kaufman, the Wall Street analyst, warned about poor standards of regulation and unwarranted complacency about the real level of risks in derivatives. European central banks, he pointed out, have been generating vast profits for private sector participants in the derivatives markets through their clumsy mistakes in the foreign exchange markets, especially in 1992, but just suppose it had been the *other way around?*

In practical terms, investors in innovative retail products are scarcely exposed to apocalyptic risks, merely to the possibility that the income may turn out to be less than expected, or the danger that allegedly "unusual" conditions may cause a few points of loss of capital.

The derivative markets are now vast, but *are still quite* immature. Their complexity invalidates the old adage that you should only put your money in (or report on) investments you understand. Moreover the proprietary nature of the product designs based upon OTC contracts means the propositions are becoming increasingly opaque, even to experts.

We just hope that the rocket scientists will not reinvent the nuclear bomb by accident.

SKF sees turnround as nine-month loss deepens

By Christopher Brown-Humes in Stockholm

SKF, the world's leading roller bearing manufacturer, yesterday announced a deeper loss for the first nine months but it signalled that a turnround was imminent.

Losses after financial items widened to SKr709m ($88.6m) from SKr361m as weak demand continued to restrain sales growth.

The group's underlying performance improved for the second quarter running. Excluding a SKr110m charge for future staff cuts, the group's deficit was SKr130m in the latest three months compared with SKr167m in the same 1992 period.

The company hopes to be back in the black at the operating level in the fourth quarter or in the first quarter of next year. It said Germany was its only market where demand was still falling. The UK, Italy and Sweden were picking up and other European markets stabilising. Conditions in the US and other markets were improving, it noted.

The more optimistic picture has prompted the group to raise its production rate.

Sales expanded to SKr21.5bn from SKr20.0bn in the first nine months. However, after allowing for currency factors and disposal of a unit, they were down 7 per cent.

Operating losses fell to SKr99m from SKr114m, but the weaker krona helped push up net financial expenses to SKr610m from SKr247m.

At the group's main bearings and seals unit, sales rose to SKr20bn from SKr17bn, but the division recorded a loss after financial income of SKr422m, compared with a SKr119m profit.

The unit's weakest area was the German car sector, where demand continued to fall. SKF is tackling this with cost reductions mainly from job cuts.

Losses at Ovako Steel were reduced to SKr301m from SKr407m, even though sales fell to SKr2.12bn from SKr2.30bn. Demand for the unit's special steel products showed signs of recovery in the third quarter, although prices remained under intense pressure.

Esselte falls 19% to SKr205m

By Christopher Brown-Humes

ESSELTE, the Swedish office products group, saw profits after financial items fall 19 per cent to SKr205m ($25.6m) in the first nine months as weak conditions continued to affect important markets.

Group sales were up 18 per cent at SKr8.6bn, but excluding currency effects, they were down by 4 per cent from last year. The rise in third-quarter profits to SKr67m from SKr55m as well as the weak result in the last quarter of 1992 led the group to predict a better full-year result, in spite of poor demand and restructuring costs. It expects a 1993 profit of about SKr300m, which will be SKr41m higher than last year.

The group said the market had been particularly weak in Spain, Belgium, Italy, France and Japan in the first nine months. However, there was some improvement in the UK, Norway and Finland, and a patchy recovery in the US.

Currency movements had a negative impact on operating margins because most of the group's production is in strong currency countries such as Germany, France, Belgium and Denmark.

The group is restructuring its Pendaflex and Bensons divisions which both fell into the red during the period.

NEWS DIGEST

Michelin injects FFr2bn into manufacturing

By John Ridding in Paris

MICHELIN, the world's largest tyre manufacturer, is to inject FFr2bn ($357m) of capital into its French manufacturing division before the end of the year.

The capital increase will be achieved through a restructuring of shareholding arrangements between the group's financial and French manufacturing divisions and will not involve the raising of capital from outside the group.

The proceeds will be used to reduce debt at the manufacturing operation which has suffered from a sharp decline in demand in the European tyre market. The group as a whole, which had a first-half net loss of FFr3.19bn, has net debts of about FFr30bn.

Thames Water declines by 10%

THAMES Water yesterday kicked off the UK utilities reporting season with lower-than-expected interim results, depressed by a surprise £25m ($37.75m) mainly due to two long-standing contractual disputes, writes Peggy Hollinger.

The group reported a 10 per cent decline in pre-tax profits to £112m for the six months to September 30 on sales 7 per cent higher at £539m. Excluding the provision, however, profits were 10 per cent higher.

Shares were down 13p to 561p, but analysts warned against taking it out of context with sales of £539m. "The core business [utilities] is excellent," said one analyst.

Lamont joins investment trust

MR Norman Lamont, former UK Chancellor of the Exchequer and recent arrival on the board of NM Rothschild, the UK merchant bank, is joining the board of the First Philippine Investment Trust, writes Richard Gourlay. He is joined as non-executive director by another ex-finance minister, Mr Ramon del Rosario of the Philippines.

Sharp drop at GBL to BFr4bn in first half

By Andrew Hill in Brussels

FIRST-HALF net consolidated profits at Groupe Bruxelles Lambert, Belgium's second-largest holding company, dropped by 21 per cent because of lower capital gains.

Net profit was BFr3.99bn ($114m) for the six months to June, against BFr5.03bn in the equivalent 1992 period, and BFr6.01bn in the first six months of 1991.

GBL said there was an increase in income from all its principal holdings, except for its 20.5 per cent stake in Petrofina, the Belgian oil company. Consolidated profit before exceptional items and capital gains rose from BFr2.98bn to BFr3.42bn. Capital gains fell from BFr2.05bn to BFr562m.

The company, headed by Mr Albert Frère, said full-year consolidated profit – excluding capital gains – should be greater than 1992's BFr6.34bn, of which capital gains accounted for BFr1.76bn.

GBL's 11.2 per cent stake in Tractebel, the Belgian utility company, is still the biggest contributor to profit, bringing in net income of BFr557m (BFr515m) in the first half of 1993.

Biggest increases in income came from indirect holdings in Royale Belge, the Belgian insurer, which contributed BFr462m (BFr318m), and CLT, the Luxembourg audiovisual group, which contributed LFr488m (LFr359m).

Petrofina's contribution, however, was almost unchanged at BFr216m against BFr219m.

GBL saw the value of its portfolio increase to BFr90.4bn on June 30, or BFr4,195 per share from BFr74.3bn at the end of last year.

Since then the market value of its holdings has increased a further 10 per cent to BFr99.7bn.

On average, the holding company said the companies which make up its portfolio – which also include Parfinance, the French financial group, and Banque Bruxelles Lambert, the Belgian bank – had increased interim profits by 17 per cent compared with the first half of 1992.

Manifesto appeals for revolution

Volvo's 66-page document offers a radical restructuring that goes beyond the proposed merger with Renault, writes **Hugh Carnegy**

Volvo seems undeterred by the growing clamour in Sweden over the proposed merger of its car and truck operations with France's Renault. Yesterday, the group said it was asking its shareholders to approve revolutionary changes in the shape of the country's biggest and most famous manufacturing group.

The 66-page information leaflet circulated to shareholders contained much about the Renault deal.

However, it also amounted to the clearest exposition to date of Volvo's strategy involving a radical restructuring in which the proposed Renault merger is a vital, but not exclusive element.

When shareholders gather in Gothenburg on November 9 to vote on the Renault agreement, they will also vote to approve Volvo's terms for acquiring 100 per cent control of Branded Consumer Products, the food and drinks operations of Procordia, a conglomerate jointly controlled by Volvo and the Swedish government.

Under a complex deal struck earlier this year with the state, Volvo will become the sole owner of BCP and hold a minimum 25 per cent interest in Pharmacia, Procordia's big pharmaceutical operations, after the Swedish government sells off its Procordia holdings.

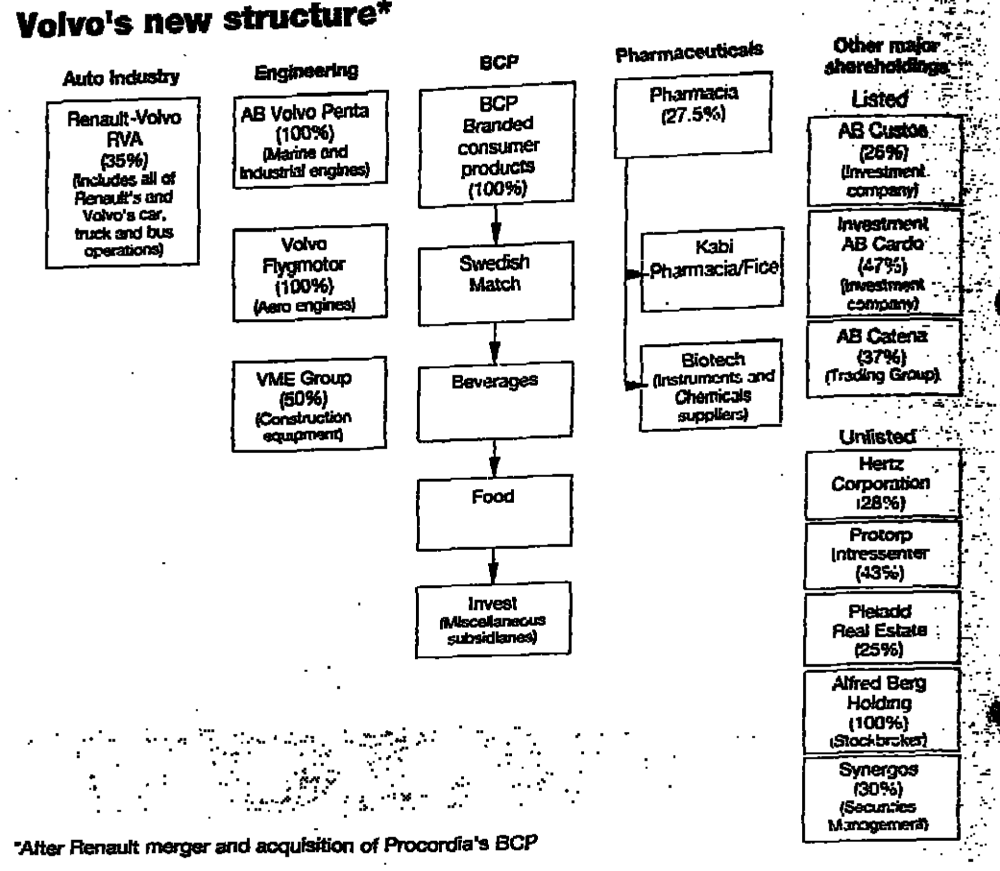
If these transactions go ahead, Volvo's profile will be transformed.

Its traditional role as a car, truck and engineering group will become, in effect, an arms-length investment and its biggest direct involvement will be in the production of beer and soft drinks, food products and matches.

"A new Volvo group, with considerably improved dividend capacity, will be formed," wrote Mr Sören Gyll, the chief executive, in the leaflet.

"The competitiveness of the automotive operations will increase. Volvo will gain control over a large, profitable consumer products operation with development potential, a favourable cash flow and a moderate investment requirement," Mr Gyll wrote.

Volvo's new structure*



*After Renault merger and acquisition of Procordia's BCP

Cash flow and investment costs are two of the important factors behind the restructuring. Volvo says securing a stand-alone future in vehicle production would cost up to SKr8bn ($1bn) in capital investment.

Meanwhile, Volvo has estimated, on a pro forma basis, that in the first six months of the year the inclusion of BCP would have produced positive cash flow of SKr400m, compared with a negative SKr200m if only the Renault merger was envisaged.

However, these arguments have not persuaded those Swedish sceptics who doubt the strategy of Volvo increasing its role in food and pharmaceuticals and who remain unconvinced at least by the terms of the proposed merger with Renault.

Pro-forma income statements in yesterday's leaflet for the merged Renault-Volvo company show some short-term reasons for this.

Volvo estimated that in the first six months of 1993, Renault-Volvo would have produced pre-tax profits of FFr320m ($56.5m) on sales of FFr119.2bn, scarcely more than the SKr380m in profits Volvo produced on sales of a little more than one quarter of the merged company.

Volvo quoted a less-than-enthusiastic opinion from Credit Suisse First Boston that the Renault merger was "financially reasonable" from the point of view of Volvo shareholders.

Critics continue to suggest that, in effect, an improving Volvo, which will have a 35 per cent share in the new company, has been undervalued in the merger with Renault, which has suffered a sharp decline in profits. They complained that the information leaflet gave no indication of what values were put on Volvo's and Renault's respective assets when the deal was negotiated.

Mr Pehr Gyllenhammar, the Volvo chairman, wrote only: "It is important to recognise that short-term fluctuations in results have had little impact on agreed values."

The leaflet said Volvo would initially value its 35 per cent holding in the merged company at SKr22.6bn, but it gave no estimate of the present value within the existing Volvo structure of the car and truck operations.

Mr Gyllenhammar insisted the share structure meant Volvo "should have a major influence on the shaping and destiny of the new company". But he offered nothing new on the other important Swedish concern – the present and future role of the French state in the merged company – beyond repeating his faith in the French government's commitment to privatise Renault soon.

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RJR Nabisco income falls 58%

By Karen Zagor in New York

RJR NABISCO, manufacturer of Winston and Camel cigarettes, yesterday unveiled a 58 per cent drop in third-quarter net income.

The sharp decline reflects the impact of price wars with its main rival Philip Morris, but Wall Street was prepared for the downturn and shares held steady at $5⅝.

Net income in the quarter was $76m, including a one-time gain of $2m on sales which fell 11 per cent to $3.6bn. A year earlier, RJR earned $175m, including one-time charges of $70m, on sales of $4bn.

RJR's earnings per share tumbled to 4 cents from 13 cents, while operating income eased 44 per cent to $431m from $763m.

The company warned it would take significant charges in the fourth quarter to cover cost-cutting and other performance improvement measures.

RJR had warned of a 43 per cent shortfall in operating income from US tobacco operations for the whole of 1993 and the third-quarter results were exactly as most analysts had predicted.

Mr Charles Harper, chairman and chief executive, said the company's earnings showed the direct impact of lower tobacco prices in the US.

Stripping out domestic tobacco results, RJR's third-quarter operating income from continuing businesses rose 15 per cent.

Overall, the group's tobacco business posted sales of $1.87bn, down 20 per cent from the $2.33bn reported in the same period of last year.

Operating income before amortisation of trademarks and goodwill dropped 46 per cent to $382m from $712m.

Internationally, operating income before amortisation of trademarks and goodwill rose 14 per cent on sales which edged 2 per cent higher.

Gains overseas were more than offset by a 64 per cent plunge in domestic operating income before amortisation of trademarks and goodwill.

US sales fell 29 per cent. The company blamed a less favourable product mix and lower overall volume for the erosion, in addition to discounted prices.

The company's food group saw sales rise 6 per cent to $1.73bn and operating income for continuing businesses before amortisation of trademarks and goodwill advance 10 per cent to $230m.

For the first nine months, RJR earned $316m, or 23 cents a share, against $254m, or 20 cents a year earlier. There were one-time charges of $110m in the 1993 period and charges of $351m in the same period of 1992.

Sales eased to $11.1bn from $11.65bn.

Paramount unveils new joint-venture TV network

By Martin Dickson in New York

PARAMOUNT Communications, the US entertainment group which is the subject of a bidding war, yesterday announced a joint venture with television group Chris-Craft Industries to launch a new US broadcast TV network.

The network, due to come into operation at the start of 1995, would initially present four hours of original programming over two nights a week. Paramount yesterday described the venture as a "fifth national network", though its original programming would initially fall far short of the existing four – ABC, CBS, NBC and Fox.

The Paramount and Chris-Craft stations which will comprise the core affiliates of the new network reach some 27 per cent of US television households.

The deal does not impinge directly on the takeover battle between Viacom, the cable company making a friendly $9.5bn bid for Paramount, and QVC Network, which has launched a hostile offer worth the same amount.

However, Viacom yesterday welcomed the Chris-Craft deal, which it described as "one more example of the limitless potential that makes the future for Paramount-Viacom so exciting."

The new network, would be jointly owned and operated by Paramount and Chris-Craft, which holds 70 per cent of BHC Communications, owner of a group of eight TV stations.

Paramount's television group is a leading producer of programmes for the existing television networks and for first-run syndication. It also owns seven television stations.

The network's four hours of original programming would feature the introduction of "Star Trek: Voyager", an hour-long series developing the "Star Trek" series owned by Paramount. It would acquire additional original programmes from Paramount and other producers, but has yet to decide on news programming.

Price rises help reinforce recovery at US Steel

By Richard Waters in New York

THE SUCCESS of US steel makers in pushing through price rises this year, together with stronger demand for their products, helped reinforce the recovery at US Steel, the country's largest producer, in the third quarter.

The company reported net income of $36m, or 44 cents a share, compared with a loss of $28m, or 48 cents, a year ago.

Continuing turnround at US Steel helped parent company USX report after-tax profits for the period of $66m, compared with a $4m loss in the same period in 1992.

Raw steel production rose by 8 per cent to 2.8m tons. At this level, US Steel said it was operating at 95 per cent of capacity, compared with 88 per cent a year before.

With higher prices, sales rose by 12 per cent year-on-year to $1.4bn.

The figures were flattered by the change in the US corporate tax rate, which led to a one-off addition to income of $20m.

This was largely offset by a further $14m charge for interest expense relating to a litigation judgment made earlier this year and against which the company is appealing.

USX also benefited from a 25 per cent rise in net income at Marathon Group, its oil subsidiary, to $30m or 10 cents a share. The figures were held back by one-off charges, in part to reflect the lower market values of the company's inventory.

Lower oil prices and higher margins in refining led to a sharp increase in operating income in the company's downstream operations from $24m to $146m.

Exploration and production activities recorded an operating loss of $9m, compared with a profit of $43m as a result of $4 fall in oil prices over the year.

Improvement at Canadian textiles group

By Robert Gibbens in Montreal

DOMINION Textile, the Canadian-based integrated textile group, improved profits in the first quarter ended September 30.

The group is also planning to expand globally in denim, interlinings and non-wovens, its three largest business sectors.

Domtex is completing a US$150m 10-year note issue which, together with a US$200m standby credit, will bring its debt-equity ratio down to near its target of 40:60. Later it plans a US equity issue and a quotation on a US stock exchange.

First-quarter net profit was C$4.5m (US$3.4m), or 8 cents a share, up from C$3.6m, or 6 cents, on sales of C$301m, compared with C$295m.

Industrial fabrics did well while interlinings declined slightly. European industrial non-wovens performed better and the Klopman workwear unit posted an 11 per cent sales gain, although margins tightened.

Strong competition pushes Northern Telecom into loss

By Bernard Simon in Toronto

WEAK DEMAND and fierce competition in the North American telephone switch market contributed to a third-quarter loss at Northern Telecom, the Canadian telecommunications equipment maker.

The Toronto-based company continued to predict, however, that it would return to the black in the fourth quarter.

Earlier this year Northern announced a reorganisation, including the loss of about 5,000 jobs. The third-quarter loss of $33.7m, or 13 cents a share, compared with earnings of $116.2m, or 46 cents a share, a year earlier. Revenues slipped to $1.88bn from $2.02bn.

Revenues from central-office switches, cable and transmission products all declined. They were partly offset by "good growth" in multimedia communications systems. Order input for the quarter of $2.34bn was 3 per cent higher, while orders on hand rose by almost a third to $4.41bn on September 30.

Northern broke a tradition yesterday by not making its chief executive available to comment on the results. However, Mr Jean Monty said in a press release that the company was encouraged by growth in its international business and by strong revenue gains from its fledgling wireless products.

Costs associated with the restructuring, which were taken in the second quarter, drove the company to a $984.5m loss in the first nine months of 1993, compared with earnings of $283.3m last year.

The third-quarter results were in line with analysts' expectations, and Northern's share price rose 62 cents on the Toronto stock exchange yesterday to C$35.50 at midday.

Missile merger plan on target

By David Buchan in Paris and Daniel Green

MATRA, the French defence company, yesterday confirmed the claim by Mr Dick Evans, chief executive of British Aerospace (BAe), that the two companies were on target to merge their missile businesses by the end of this year.

BAe also confirmed the report, saying that talks between the two companies had made "significant progress" and that a deal by the end of the year was possible.

In an interview published yesterday in Les Echos, the French economic daily, Mr Evans said that "we have agreed on the structure of the business and the range of products" of the planned joint venture.

The aim is for Matra, the defence wing of Matra-Hachette, the missiles-to-magazines group, to merge with BAe's missile division, in a joint venture.

Voting rights would be split 50-50, but the ratio of share capital and management control would reflect a valuation exercise.

This should be completed by the end of this year, Mr Evans said yesterday.

The valuation involves the two companies revealing the state of their respective order books to each other.

Mr Evans added that the eventual aim of the merger was to create "a big European missile group", with other companies like the UK's GEC-Marconi possibly joining in later.

However, it was only possible to have two founder companies, BAe and Matra, he said.

Talks by Matra and BAe on merging their missile activities started before Thomson, the rival French defence electronics group, linked with Shorts, the Belfast-based aerospace group.

Chevron operating profit up

By Richard Waters

THE OIL price fall helped boost operating profits at Chevron in the third quarter, as higher margins on refined products more than offset the impact of lower prices on exploration and production activities.

One-off charges of $145m – mainly related to the rise in the US corporate tax rate – led to a fall in net income to $420m, or $1.29 a share, from $467m or $1.37 a share the year before.

Before special items, net income in both periods jumped to $565m from $410m.

US refining and marketing income climbed to $164m, from $69m, while earnings overseas were up from $19m to $50m.

Lower oil prices accounted for most of the improvement. Mr Ken Derr, chairman and chief operating officer, said the company had cut operating expenses by 14 per cent over the past two years, equivalent to a saving of $1 a barrel.

US exploration and production income fell to $125m from $251m as higher natural gas prices failed to make up for a $3.94 fall in the price realised for a barrel of oil.

● Unocal, the Los Angeles-based energy group, lifted its third-quarter earnings to $70m or 25 cents a share from $11m or 1 cent a year ago, boosted by improved West Coast refining and marketing operations, Reuter reports.

Higher domestic natural gas prices, lower worldwide exploration expense and lower interest expense contributed to the improved results.

The quarter included a $14m charge on the effect of the higher federal tax rate on deferred taxes. The 1992 quarter included a $32m restructuring charge. Third-quarter operating earnings from petroleum exploration and production fell to $101m from $121m in 1992, reflecting lower worldwide crude oil prices and production. Higher domestic natural gas prices and production and lower exploration expense partially offset the drop.

P&G posts earnings of $670m

By Martin Dickson

PROCTER & Gamble, the US consumer products company, yesterday reported a 10 per cent increase in first-quarter net earnings, with volume growth and cost cutting outweighing lower prices and unfavourable exchange rate movements.

The group reported net earnings of $670m, or 95 cents a share, on net sales of $7.56bn, compared with earnings of $610m, or 86 cents, on sales of $7.88bn in the same period of last year, excluding special 1992 items. The figures were broadly in line with Wall Street expectations.

Mr Edwin Artzt, chairman, said that "despite challenging market conditions in many parts of the world, the quarter produced broadly-based volume growth by sector and geography, with good balance between established and new brands.

"Efforts to improve value for consumers are receiving good response, and several new brand initiatives have been productive."

The company said important factors contributing to the rise in earnings were strong unit volume growth in the US and international markets, lower costs that more than offset the impact of lower pricing, and lower interest costs.

Unit volume was up 6 per cent, excluding the company's discontinued juice and pulp operations.

On a constant exchange rate basis, net earnings would have been up 17 per cent on a year ago. Excluding exchange rate changes and divestitures, sales revenues would have been up 5 per cent.

AlliedSignal advances 24%

By Martin Dickson

ALLIEDSIGNAL, the US high-technology group, yesterday reported a 24 per cent rise in third-quarter net income, helped by productivity improvements.

The company posted net income of $168m, or $1.19 a share, compared with $135m, or 95 cents, in the same period of last year.

Net sales fell 4 per cent to $2.8bn and were flat when foreign exchange movements are excluded.

The operating margin rose to 8.2 per cent from 6.9 per cent, and the return on equity was 27.8 per cent, against 25.5 per cent.

US health groups sign supply deal

BAXTER International, the US heathcare group, and American Healthcare Systems have signed a five-year agreement expected to be worth more than $4bn in Baxter supplies and services for American Healthcare member hospitals, AP-DJ reports.

The agreement renews a five-and-a-half-year agreement signed in August 1988 and represents an increase of about 60 per cent over the $2.5bn purchases of Baxter products made by American Health Systems hospitals during the previous five years.

American Healthcare, based in San Diego, California, represents more than 1,000 healthcare facilities in 47 states. The new deal covers a wide range of products, including Baxter's entire range of medical and surgical supplies, cardiovascular devices, and diagnostic instruments and reagents.

Baxter provides intravenous fluids and related products under a separate five-year agreement signed in 1991. That is expected to result in purchases of up to $500m in Baxter intravenous products over the course of the contract.

Prices for electricity despatched for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Predicted Prices for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.23	21.31	24.05
0100	25.16	21.31	24.08
0130	25.16	21.31	24.08
0200	25.16	21.31	24.08
0230	25.16	21.31	24.05
0300	25.16	18.08	18.08
0330	25.16	18.07	18.07
0400	18.24	18.07	18.07
0430	18.08	18.07	18.07
0500	18.08	18.04	18.04
0530	18.24	18.07	18.07
0600	18.40	18.08	18.08
0630	19.07	20.74	23.48
0700	25.10	24.65	27.40
0730	25.10	24.86	27.71
0800	25.11	27.03	29.96
0830	27.37	31.65	34.82
0900	30.78	32.15	35.07
0930	38.44	32.13	35.04
1000	38.44	32.12	35.05
1030	36.40	28.24	31.13
1100	30.77	27.24	30.13
1130	29.09	28.26	31.16
1200	29.09	28.35	31.27
1230	27.40	32.07	34.97
1300	25.72	31.90	34.76
1330	25.71	26.35	29.17
1400	25.71	25.07	27.95
1430	25.71	25.04	27.81
1500	25.71	25.03	27.80
1530	25.72	25.05	27.82
1600	26.82	25.21	28.03
1630	29.64	33.28	36.29
1700	49.52	35.81	38.81
1730	57.49	35.70	38.68
1800	58.23	35.34	38.21
1830	47.60	32.80	35.69
1900	40.18	25.21	28.03
1930	31.20	34.29	37.12
2000	28.87	34.29	37.11
2030	27.77	32.72	35.51
2100	25.41	24.98	27.75
2130	25.40	24.92	27.69
2200	25.40	24.88	27.63
2230	25.40	24.88	27.63
2300	25.40	24.15	26.90
2330	19.11	21.68	24.31

Battle is joined for HK's dailies

Simon Davies reports on a new daily paper in Hong Kong, planning to challenge the South China Morning Post

JUST weeks after millionaire Mr Robert Kuok paid $349m to Mr Rupert Murdoch for control of the South China Morning Post (the Post), Hong Kong's leading English language newspaper, its effective monopoly is to be challenged. Oriental Press, the most profitable Chinese language publisher in Hong Kong, is to launch a new English language newspaper, the first in more than a decade.

Mr Herman Hui, executive director of Oriental Press, said the group would be able to launch a newspaper by the end of December, but would not proceed unless it was confident it could break even within "a few months". It has already poached a significant number of journalists from the Post and appointed an editor.

The launch is linked to the Post's change of ownership, which was seen as a political move. Mr Kuok is a major investor in China and an appointed adviser to Beijing on Hong Kong affairs; few believed he would not change the editorial policy.

By comparison, Oriental Press Group's main newspaper, the *Oriental Daily*, is firmly pro-Hong Kong's governor, Chris Patten. Its move has been encouraged by some government officials as a means of encouraging a free press in Hong Kong.

The group's image as a saviour of free speech is somewhat tainted, however, by the fact that its founder, Ma Sik-chun and his brother "White Powder" Ma Sik-yu, fled the colony for Taiwan in 1977 and 1978, to escape heroin trafficking charges. The Ma family owns 70 per cent of Oriental Press.

Competition is seen as positive for readers, advertisers and the freedom of the Hong Kong press, but it could be costly for the shareholders of both companies.

Stakes are high. South China Morning Post (Holdings) made net profit of HK$494m (US$63.9m) in the year to June 1993, almost exclusively from the Post. The daily paper has a readership of only 238,000, but advertising rates reflect the spending power of its top-flight readership.

Oriental Press Group made HK$420m in the year to March 1993, and boasts 1.63m readers – one-third of the entire Hong Kong newspaper market. Despite supporting Mr Patten's democratic reform programme, the paper is generally more interested in gossip on the local film industry's starlets.

Most likely victim of the battle is the existing "second paper", the *Hong Kong Standard*. It has failed to break the Post's arm-lock on advertising – despite under-cutting prices – and it seems unlikely the small market for English language newspapers can bear three products.

However, it is the Post's readership and advertisers that Oriental is targeting. The Post has promised a round of pay rises to counter further staff defections and the new management is keen to counter suggestions that a change of tack towards Beijing may antagonise existing readers. Mr Kuok said that the editorial policy would not change and the Post would remain "a Hong Kong newspaper dedicated to Hong Kong's best interests".

Oriental Press would not reveal how expensive its gamble will be. It has the spare printing and office capacity to operate another newspaper at little extra cost. It also has a net cash position of around HK$500m, more than enough to fund the salaries and the enormous launch campaign.

But they are facing a formidable adversary. In the mid-1970s there were four English language newspapers, but they did little to damage the Post's earnings stream. It has emerged as one of the world's most profitable newspapers.

Mr Kuok can afford to be relatively sanguine. His enormous influence in the local business community will ensure continued patronage for his new project, whatever the support for the new competitor.

In addition, after 1997 he could expect to be recompensed by the government for any adverse favouritism shown in Hong Kong's dying days as a British colony.

JR East stock soars 57.8% on debut

By Emiko Terazono in Tokyo

SHARES in East Japan Railway (JR East) soared 57.8 per cent above their initial offer price when half the company's shares were floated on the Tokyo stock exchange yesterday.

The stock was finally traded at Y600,000 ($5,535) a share, after remaining bid-only all day.

The listing of JR East is the biggest offering of a semi-privatised company since the $160bn float of Nippon Telegraph and Telephone in 1986.

It is a crucial test of the market's strength ahead of flotations for other government-held companies, including Japan Tobacco and the remaining six regional railways.

Brokers hope that the success of JR East will help restore confidence among retail investors, who have been discouraged by last year's sharp drop in the price of NTT shares.

Traders said that the rush of buy orders clogged the Tokyo stock exchange's computers, disrupting the processing of orders. Two million of the 4m JR East shares held by state-owned Japan National Railway Settlement were listed yesterday.

TSE officials said that JNR Settlement had to inject more than 500,000 of its remaining shares into the market to deal with the lack of sellers amid a torrent of buyers.

Mr Masatake Matsuda, president of JR East, rejected suggestions that the initial traded price was too high.

He said that he believed the market price had been formed in a fair manner, based on proper information.

Mr Matsuda said that JR East would maintain an annual dividend of Y5,000.

However, he raised the possibility of a dividend increase, adding that he would need to compare the company's payout ratio and dividend rate with those of other listed companies.

In spite of the popularity of JR East, the overall Tokyo stock market declined as investors sold shares to raise funds in order to buy the JR issue, and the Nikkei index fell 1.4 per cent to 20,023.60.

General Motors to take $950m charge

By Martin Dickson in New York

GENERAL Motors is to take a $950m pre-tax charge against third-quarter earnings to cover additional costs from its programme to close 21 redundant manufacturing plants in North America.

The news came shortly after GM reached a new three-year labour agreement with the United Auto Workers union which will sharply push up the company's pension costs, while allowing it more freedom to relocate laid-off workers to new plants.

The company, which is to report third-quarter figures tomorrow, said the charge resulted mainly from greater productivity gains than had been expected when it first made a provision for the plant closing programme.

This meant fewer jobs would be available within the group for workers from plants that GM was closing, which in turn would push up its job security costs. Under a long-standing job security programme, GM continues paying its workers even after they have been laid off.

However, the company said that even with the charge it believed it could attain its 1993 financial goal for its North American automotive operations – to break even before interest, taxes and non-cash healthcare expenses.

Standard & Poor's, the credit information agency, said it had revised its rating outlook for GM to negative from stable because of the new labour pact.

It said the reported provisions of the agreement would not bolster the company's cost-cutting efforts in North America, as had been anticipated.

GM's market share performance had been disappointing in recent quarters, S&P said.

These factors heightened uncertainty about the company's ability to achieve meaningful profits in North America, it added.

● GM has ended a 28-month search for a strategic partner for its locomotive group. It said that it could not find potential partners able to offer the kind of investment needed to enhance the unit, Reuter adds.

The locomotive group, which includes the electro-motive and diesel divisions, is based in Ontario, Canada, and manufactures locomotives and defence-related products.

GM first announced that it was looking for a partner for the unit in June 1991.

Amexco recovery continues

By Richard Waters in New York

THE TURNROUND at American Express engineered by Mr Harvey Golub, chairman, continued in the third quarter as the financial services group's core travel-related services business maintained the earnings momentum of the previous three months.

The group also benefited from Wall Street's strong performance. Its Lehman Brothers investment banking unit recorded a rise in net income, to $114m from $95m the previous quarter, driven by a 77 per cent increase in its income from making markets and other principal transactions.

Net income at American Express for the three months to the end of September reached $430m, or 83 cents a share, compared with a loss of $204.7m (after a one-off restructuring charge of $492m) a year ago.

The figures were lifted by a net benefit of $23m from the rise in the US corporation tax rate, which led to a one-off adjustment to deferred taxes. It said this benefit was offset by costs from the early repayment of some debt.

Net income in travel-related services rose to $236m, from $234m the previous quarter and a loss of $187m the year before.

Gross revenues fell 2 per cent over the year to $2.16bn, due to a fall in the discounts charged to merchants for accepting American Express cards and a decline in card fees.

However, provisions for credit losses fell by nearly 30 per cent, to $375m. The number of cards in force continued to fall, to 34.2m from 35.1m a year before, though the amount of business billed to cardholders during the period, at $30.8bn, was up 4 per cent.

Gross revenues (net of interest costs) at Lehman Brothers rose by a third, to $885m, as income from principal trading jumped sharply to $421m.

Investment banking revenues advanced by 34 per cent to $186m, while commissions grew by a fifth to $126m.

Other businesses continued to show improvements in operating performance. Net income at IDS, the investment management and advisory arm, rose to $96m from $80m on higher fee income, while after-tax profits at American Express Bank climbed to $27m from a loss of $30m the year before.

US bank advances to $48.5m

MARINE Midland Banks, the US bank which is an indirectly-held, wholly-owned subsidiary of London-based HSBC Holdings, yesterday reported an increase in net income in the third quarter, agencies report.

Income for the period advanced to US$48.5m and to $127.8m for the year to date. This compares with net income of $29.9m and $73.5m for the corresponding periods in 1992.

The bank lifted net interest income to $189.2m for the quarter, from $173.7m last time, mainly because of favourable margins and increased credit card assets.

Other operating income for the quarter declined to $50.5m, compared with $82m for the same period in 1992.

"This decline is primarily attributable to a one-time gain from the sale of mortgage-backed securities in the third quarter of 1992, and decreasing amounts of fee income from securitised credit card assets and mortgage servicing," the bank said.

Marine's tier one risk-weighted asset ratio increased to 9.85 per cent for the third quarter, compared with 9.29 per cent for the third quarter of 1992.

The bank's total risk-based capital ratio was 16.76 per cent in the third quarter, compared with 17.09 per cent for the third quarter of 1992.

US-Japanese diesel engine deal revealed

By Andrew Baxter

CUMMINS ENGINE of the US and Komatsu, the biggest Japanese construction equipment group, yesterday announced details of their collaboration plans in diesel engines. The deal was originally revealed in February.

The companies will be forming two joint ventures, one of which will be named Komatsu Cummins Engine and located at Komatsu's Oyama plant in Japan. It will produce Cummins' small B-series, used by Komatsu in construction equipment and sold by Cummins in Japan and Asia. This will allow the US company to increase its presence in the growing Asia-Pacific region.

The second venture, Cummins Komatsu Engine, will be sited in Cummins' plant at Seymour, Indiana, and produce Komatsu's large 30-litre engines for Cummins to sell worldwide.

Production at both ventures will begin by 1996, with annual output expected to reach 40,000 engines at Oyama and 2,000 engines at Seymour by the end of the decade.

The link-up between the two companies is one of the most important in the world diesel engine industry. It allows both companies to extend their product ranges and cut costs by sharing R&D and eliminating areas of duplication.

Ovens closure costs Inland Steel $20m

INLAND Steel of the US is to take a pre-tax charge of about $20m in the fourth quarter due to the closure of four coking batteries at the No 2 Coke Plant at the Indiana Harbour Works, Reuter reports.

The batteries' coke ovens, used to bake coal into fuel for ironmaking blast furnaces, will be shut in December. About 461 hourly workers and 38 salaried employees will lose their jobs, and the company said they would be eligible for support services, certain benefits and retirement options.

The four batteries are Inland's only remaining coking facilities. All the coke battery shutdowns are due to the same combinations of circumstances, including the inability to meet existing and future environmental regulations and the decline of the oven performance.

● **Phillips-Van Heusen**, the US clothing and shoes group, will incur a one-time charge, net of tax, of $12.2m, or 45 cents per share, for its fourth quarter ending January 31, as part of its plan to redeem senior debt, Reuter reports.

The group said it planned to issue $100m of debentures, due 2023, and use the proceeds to redeem the company's outstanding 11.2 per cent Senior Note, due 2002. The note was issued to the Prudential Insurance Company of America.

With cash from working capital, the proceeds will also go towards redeeming outstanding 9.93 per cent Senior notes due 1997, issued to Teachers Insurance and Annuity Association of America, the company said.

Goldman, Sachs and Company and BT Securities Corporation will be the underwriters.

Computer groups link

NATIONAL Semiconductor of the US has entered a technical and marketing partnership with Novell, the US software group, Reuter reports.

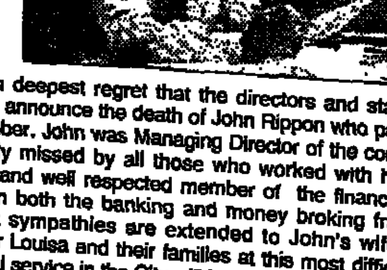
National, a leading computer chip maker, said that it was going into the end-user networking market with a set of products which had just been launched.

Earlier, Microsoft and Cisco Systems of the US announced a similar alliance to expand networking options for end-users.

Mr Ray Noorda, Novell's chief executive, said that Novell and National would provide customers with network solutions that set new standards for technical innovation, compatibility, ease of use, and price.

CONTRACTS & TENDERS

OBITUARY



It is with deepest regret that the directors and staff of Tradition (UK) Ltd announce the death of John Rippon who passed away on 4th October. John was Managing Director of the company and will be sorely missed by all those who worked with him. He was a popular and well respected member of the financial community, known in both the banking and money broking fraternities. Our deepest sympathies are extended to John's wife Hilary, their daughter Louisa and their families at this most difficult time and a memorial service in the City will be held as a mark of respect.

Matsushita and Sharp down sharply at midterm

By Michiyo Nakamoto in Tokyo

MATSUSHITA Electric Industrial and Sharp, the Japanese consumer electronics companies both report sharp falls in first-half profits.

Matsushita confirmed expectations of a substantial deterioration in its first-half business by reporting a 43 per cent fall in pre-tax profits to Y29.7bn ($280.2m) from Y52.3bn.

The company blamed the continuing weakness of consumer demand, and slow recovery in its other main markets for the poor parent company results. Sales for the half year were 6 per cent down to Y2,147bn.

Matsushita was particularly hard hit by an unusually cool summer, which not only depressed demand for air conditioners but also dampened consumption overall. Meanwhile, the yen's appreciation against major currencies including the US dollar, D-Mark and Asian currencies resulted in a first-half loss of Y9bn.

Domestic sales were down 7 per cent while exports suffered a 5 per cent decline. Of Matsushita's separate product categories, sales of video equipment fell 11 per cent and audio products 6 per cent. Home appliances, including air conditioners, registered the largest fall among product groups of 17 per cent.

On the other hand, sales of rice cookers which use induction heating and combined TV/VCR units were buoyant.

Matsushita, which is looking for growing second-half demand for its thin TVs and wide-screen TVs, is forecasting full-year profits of Y63bn, down 35 per cent, on sales of Y4,350bn, a 4 per cent fall from the previous year.

Sharp, meanwhile reported a 23 per cent fall in first half pre-tax profits for many of the same reasons that affected Matsushita. Pre-tax profits came to Y20.2bn, a decline of 23 per cent on sales of 575.2bn, down 1.4 per cent from the previous year.

The company, which has been building up expertise in liquid crystal displays and flash memories, saw its exports rise 1.5 per cent during the period.

Sharp is forecasting stable sales for the full year at Y1,150bn and pre-tax profits of Y41bn, down 8 per cent. The company does not expect the Japanese economy to recover easily due to an expected increase in unemployment and continuing yen strength.

First-half profits at Fanuc plunge 28%

By Emiko Terazono in Tokyo

SLACK sales of industrial robots to the motor industry were blamed for a plunge in half-year profits at Fanuc, the world's largest machine tool manufacturing equipment maker.

Unconsolidated pre-tax profits for the first six months to September fell 28.2 per cent to Y11.6bn ($109.4m) on a 9.7 per cent decline in sales to Y56.2bn.

After-tax profits fell 29.5 per cent to Y6.5bn.

Sales at the robot division tumbled by 23 per cent to Y14bn. Industrial robots for the auto industry accounted for 50 per cent of total robot sales, down from the previous 70 per cent.

Factory automation equipment declined 11.7 per cent to Y33.9bn. However, exports to Taiwan and South Korea were brisk, pushing Fanuc's export ratio above 40 per cent for the first time.

During the second half of the year, the company will focus on sales of plastic injection molding machines, the only item to produce firm profits.

Plant and equipment investments for the second half will fall by 50 per cent from the previou year, the company said.

For the full year to March, Fanuc expects non-consolidated pre-tax profits to fall 27.3 per cent to Y21.2bn on a 10.1 per cent decline in sales to Y105.7bn.

Indian inquiry puts reforms to test

Stefan Wagstyl on the country's biggest corporate takeover plan

INDIA'S Monopolies and Restrictive Trade Practices Commission yesterday started a public examination of the country's biggest corporate takeover plan in a hearing which is being seen as an important test of the effectiveness of the government's economic reforms.

The inquiry concerns proposals by Hindustan Lever, the Indian subsidiary of Unilever, to acquire Tata Oil Mills Company (Tomco), an affiliate of Tata, India's largest industrial grouping, and a large producer of soaps and detergents.

Before Mr P.V. Narasimha Rao, the prime minister, launched the liberalisation programme in 1991, the monopolies commission was a powerful instrument of the licence raj – the panoply of economic controls developed in post-independence India. The inquiry into the Hindustan Lever-Tomco deal is the commission's first major probe since its powers were curbed by changes to the Monopolies and Restrictive Trade Practices Act. The handling of the case will be a significant indication of how reforms are being implemented.

Hindustan Lever's takeover of Tomco was announced in March and approved in June by shareholders of both companies but it has still to complete its passage through legal and official reviews. Under Indian law, companies wishing to make acquisitions must register them in court. Would-be opponents are given the opportunity to file protests.

Hindustan Lever's plans have been opposed by one of its in-house trade unions, the Maharashtra Girini Kamgar Union (which represents about 20 per cent of the employees), and by the Maharashtra Small-Scale Soap Manufacturers Association, a small-scale employers' organisation.

The trade union is worried about the potential impact of the merger on jobs and the small-scale manufacturers association is concerned small-scale producers might be squeezed out of the market.

Both organisations have filed protests against the merger in the Bombay High Court and the Monopolies and Restrictive Trade Practices Commission (MRTPC).

In its case to the MRTPC, the trade union concedes that amendments to the anti-monopolies act have ended blanket restrictions on large groups carrying out takeovers or making other investments which would substantially increase market share. However, the union argues that the proposed acquisition of Tomco by Hindustan Lever would infringe rules still in force on "restrictive trade practices".

It claims the acquisition would create a group with nearly 80 per cent of the national market in toilet soaps and 90 per cent in detergent. This would distort competition with "disastrous" results for consumers and cuts in employment in the industry.

Hindustan Lever says the union's figures are exaggerated, claiming that its market share in soaps and detergents would rise from 25 per cent to 30 per cent after the merger. It argues that the deal will "benefit all".

Hindustan Lever hopes that the commission will finish its deliberations soon, before December 15, when the Bombay High Court is due to consider the merger. Hindustan Lever officials believe that a positive verdict from the commission will help the court to deliver a favourable verdict.

Dai-Ichi Kangyo cuts forecast

By Emiko Terazono

DAI-ICHI Kangyo Bank, a leading Japanese bank, halved its interim pre-tax estimates yesterday due to higher-than-expected write-offs for bad loans and a fall in income due to lower profit margins.

Other banks, which are due to announce their half-year results at the end of next month, are expected to follow suit, as an increasing number of corporate borrowers are becoming unable to pay back loan interests amid the prolonged economic slump. This is forcing the banks to write off the bad loans.

Combined bad loans at 21 leading banks stood at Y12,770bn at the end of last March, and industry analysts expect the figure for end-September to have risen to around Y14,000bn.

At the same time, revenues at the banks have been squeezed by a slump in lending. For the first six months to September, the outstanding balance of loans at 11 leading commercial banks fell by 0.5 per cent to Y222,300bn, its first fall on record.

DKB halved its pre-tax profit for the first half to September from its original forecast, to total Y20bn ($184m), down 56.8 per cent from the year-ago figure.

Ordinary income for the first six months is expected to fall 17.2 per cent to Y1,290bn, instead of Y1,300bn. The bank's after-tax profits are expected to fall 44.8 per cent to Y16bn instead of the earlier forecasted Y24bn.

For the full year to March, DKB expects pre-tax profits to plunge 62.1 per cent to Y40bn on a 15.3 per cent fall in ordinary income to Y2,500bn. After-tax profits are projected to decline 39.6 per cent to Y32bn.

SA apparel group climbs 22%

By Philip Gawith in Johannesburg

EDGARS, the clothing, footwear and textiles group in the South African Breweries stable, overcame a difficult operating environment to increase attributable profit by 22 per cent to R100.3m ($23.9m) in the six months to September, compared with R82.4m a year ago.

With the market growing during this period at an estimated 9 per cent, Edgars gained market share with turnover growing at 18 per cent to reach R1.65bn, compared with R1.41bn last time.

Selling prices, however, were deliberately reduced to compensate customers partially for a 40 per cent increase in the rate of value added tax – to 14 per cent from 10 per cent.

As a result, operating profit rose by only 5 per cent to R204.2m, from R194.4m a year ago. Lower finance charges and a drop in the effective tax rate helped boost attributable earnings.

The dividend was increased by 18 per cent to 45 cents per share, from 38 cents, on a 20 per cent increase in earnings per share to 195 cents, from 162 cents.

Mr George Beeton, chief executive, said assuming that there was no major deterioration in the socio-political environment, sales and profit growth for the full year should match the first half.

A divisional breakdown of earnings shows that Edgars contributed R86.1m, compared with R68.6m last time, and Sales House R22.9m, compared to R18.1m. Jet made a R3.2m loss, against one of R4.2m.

Fairfax finalises refinancing

By Bruce Jacques in Sydney

JOHN FAIRFAX Holdings, the Australian newspaper group, has finalised an A$850m (US$569m) debt refinancing programme which directors said would significantly lower its interest costs.

A company statement yesterday said the refinancing had been achieved despite legal action by interests associated with Independent Newspapers, the Irish media group headed by Mr Tony O'Reilly, which unsuccessfully bid for Fairfax in 1991.

The refinancing involves an unsecured five-year amortising facility of A$800m provided by a syndicate led by National Australia Bank and including Toronto Dominion Australia and Société Générale Australia. It also includes a five-year working capital facility of A$50m provided by National Australia Bank.

The facilities replace arrangements with Fairfax's previous lenders.

Malbak registers 14% increase

By Philip Gawith

MALBAK, the industrial conglomerate in the Gencor group, overcame difficult trading conditions to record a 14 per cent increase in earnings to R374m ($89.5m) in the year to August, compared with R329m a year ago.

Turnover rose by 10 per cent to R11bn, and although gross margins were under considerable pressure, cost reductions and productivity improvements helped offset these conditions and operating income rose by 7 per cent to R820m.

Mr Grant Thomas, chairman, said the results were "very pleasing" seen against the difficult operating environment.

He said the group was forecasting a modest increase in earnings for 1994, but said predictions were extremely difficult given the huge changes which lay ahead, including South Africa's first multiracial elections.

Reflecting his cautious outlook – Mr Thomas said it was unlikely that there would be any return to "sustained economic growth" in the coming year – the dividend was increased by 4 per cent to 35 cents per share.

Earnings rose by 8 per cent to 122 cents per share from 112 cents.

NEWS DIGEST

Upjohn sells Florida unit

UPJOHN, the US pharmaceuticals company, has signed a letter of intent with Terra Industries for Terra to purchase the assets and business of Asgrow Florida, an Upjohn subsidiary, for undisclosed terms, Reuter reports Upjohn said the proposed transaction is for the purchase of Asgrow Florida only and does not include the agronomic or vegetable seed portions of Asgrow Seed Company.

Asgrow Florida distributes agricultural materials including chemicals, seeds and speciality products with 12 stores in Florida and one in Georgia

S A Brewing plans to change its name

S.A. BREWING Holdings, the Australian bewer, it planned to rename the company Southcorp Holdings and to introduce a new logo, Reuter reports from Adelaide.

The company said the proposed new name reflected its origins and its diversification and expansion in Australia and overseas. It began in brewing and hotel ownership but has since become a wine producer and a manufacturer of water heaters, appliances and packaging. It sold its brewing and hotel assets in August.

S.A. Brewing said it would seek shareholder approval for the name change at its annual meeting on November 25.

Nippon Colombia cuts jobs after loss

NIPPON Colombia, the loss-making audio and video equipment maker, is to cut jobs by about 10 per cent from the current 1,950 workforce by March next year, a company spokesman said, Reuter reports from Tokyo.

Nippon Colombia also revealed yesterday a parent company first-half loss of Y266m, compared with a Y1.59bn loss a year earlier.

LEGAL NOTICES

ICS RE

ICS REINSURANCE PRIVATE LIMITED
(Incorporated in the Republic of Singapore)

NOTICE OF CREDITORS' MEETINGS

IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE ORIGINATING SUMMONS NO 1016 OF 1993

IN THE MATTER OF ICS REINSURANCE PRIVATE LIMITED

and

IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT

and

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES, NO 008942 OF 1993 CHANCERY DIVISION

IN THE MATTER OF ICS REINSURANCE PRIVATE LIMITED

and

IN THE MATTER OF SECTION 425 OF THE COMPANIES ACT OF ENGLAND AND WALES

NOTICE IS HEREBY GIVEN that by Orders dated 13 and 15 October 1993 respectively made in the above matters in the High Court of the republic of Singapore and the High Court of Justice of England and Wales (hereinafter called "the Courts"), the Courts have directed that the following separate meetings of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering, and if thought fit, approving a Scheme of Arrangement ("the Scheme") proposed to be made between ICS Reinsurance Private Limited (hereinafter called "the Company") and their Scheme Creditors hereinafter mentioned namely:

1. The Scheme Creditors of the Singapore Insurance Fund of the Company.
2. The Scheme Creditors with Singaporean Preferential debts of the Company.
3. The Scheme Creditors of the Offshore Insurance Fund of the Company.

Such meetings will be held as follows:

1. In the case of Scheme Creditors of the Singapore Insurance Fund and Scheme Creditors with Singaporean Preferential Debts at The Function Room 137 Cecil Street, #13-00 ICS Building, Singapore 0106 on 10 December 1993:

(a) Scheme Creditors of the Singapore Insurance Fund of the Company at 11.00am or as soon as the Meeting of Scheme Creditors of RMCA Reinsurance Limited is concluded;

(b) Scheme Creditors with Singaporean Preferential Debts of the Company at 11.15am or as soon thereafter as the Scheme Creditors' (Singapore Insurance Fund) Meeting has been concluded.

2. In the case of the Scheme Creditors of the Offshore Insurance Fund at The Great Hall, Chartered Insurance Institute, 20 Aldermanbury Square, London EC2V 7HY, U.K. on 14 December 1993 at 11.00am or as soon as the Meeting of Scheme Creditors of RMCA Reinsurance Limited is concluded.

Each Scheme Creditor may vote in person at the relevant Meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that the forms appointing proxies be lodged with the Secretary of the Company at its registered office situated at 137 Cecil Street, ICS Building, Singapore 0106, not less than 7 days before the time appointed for the relevant Meeting.

A copy of the said Scheme of Arrangement, the statement required to be furnished pursuant to Section 211 of the Singapore Companies Act and Section 426 of the English Companies Act, notice calling for this meeting, form of proxy and other documents can be obtained from the registered office of the Company and at the offices of its solicitors listed below. The Company has posted a set of these documents to all its known creditors at their last known address. If you are or may be a creditor of the Company and have not received the above mentioned documents by 6 November 1993 you are requested to inform the Secretary of the Company in writing at its registered office (or fax No 65-224 6016) of your name and address and a copy of the documents will be forwarded to you.

By the said Orders, the Courts have appointed Philip John Singer or failing him, Christopher John Hughes or failing them, Lock Sai Hung to act as Chairman at the said Meetings and have directed the Chairman to report the results thereof to the Courts.

The Scheme will be subject to the approval of the Courts.

Dated this 25 day of October 1993.

Coona Lau & Loh
9 Battery Road #17-08
Straits Trading Building
Singapore 0104

Davies Arnold Cooper
6-8 Bouverie Street
London EC4Y 8DD
United Kingdom

RMCA RE

RMCA REINSURANCE LIMITED
(Incorporated in the Republic of Singapore)

NOTICE OF CREDITORS' MEETINGS

IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE ORIGINATING SUMMONS NO 1015 OF 1993

IN THE MATTER OF RMCA REINSURANCE LIMITED

and

IN THE MATTER OF SECTION 210 OF THE SINGAPORE COMPANIES ACT

and

IN THE HIGH COURT OF JUSTICE OF ENGLAND AND WALES. NO 008941 OF 1993 CHANCERY DIVISION

IN THE MATTER OF RMCA REINSURANCE LIMITED

and

IN THE MATTER OF SECTION 425 OF THE COMPANIES ACT OF ENGLAND AND WALES

NOTICE IS HEREBY GIVEN that by Orders dated 13 and 15 October 1993 respectively made in the above matters in the High Court of the Republic of Singapore and the High Court of Justice of England and Wales (hereinafter called "the Courts"), the Courts have directed that the following separate meetings of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering, and if thought fit, approving a Scheme of Arrangement ("the Scheme") proposed to be made between RMCA Reinsurance Limited (hereinafter called "the Company") and their Scheme Creditors hereinafter mentioned namely:

1. The Scheme Creditors of the Singapore Insurance Fund of the Company.
2. The Scheme Creditors with Singaporean Preferential Debts of the Company.
3. The Scheme Creditors of the Offshore Insurance Fund of the Company.

Such meetings will be held as follows:

1. In the case of Scheme Creditors of the Singapore Insurance Fund and Scheme Creditors with Singaporean Preferential Debts at The Function Room, 137 Cecil Street, #13-00 ICS Building, Singapore 0106 on 10 December 1993:

(a) Scheme Creditors of the Singapore Insurance Fund of the Company at 10.30am;

(b) Scheme Creditors with Singaporean Preferential Debts of the Company at 10.45am or as soon thereafter as the Scheme Creditors' (Singapore Insurance Fund) Meeting has been concluded.

2. In the case of the Scheme Creditors of the Offshore Insurance Fund at The Great Hall, Chartered Insurance Institute, 20 Aldermanbury Square, London EC2V 7HY U.K. on 14 December 1993 at 10.30am.

Each Scheme Creditor may vote in person at the relevant Meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that the forms appointing proxies be lodged with the Secretary of the Company at its registered office situated at 137 Cecil Street, #10-00 ICS Building, Singapore 0106, not less than 7 days before the time appointed for the relevant Meeting.

A copy of the said Scheme of Arrangement, the statement required to be furnished pursuant to Section 211 of the Singapore Companies Act and Section 426 of the English Companies Act, notice calling for this meeting, form of proxy and other documents can be obtained from the registered office of the Company and at the offices of its solicitors listed below. The Company has posted a set of these documents to all its known creditors at their last known address. If you are or may be a creditor of the Company and have not received the above mentioned documents by 6 November 1993 you are requested to inform the Secretary of the Company in writing at its registered office (or fax No 65-224 6016) of your name and address and a copy of the documents will be forwarded to you.

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London EC4Y 8DD
United Kingdom

European sector claws back losses in thin trading

By Conner Middelmann in London and Patrick Harverson in New York

GOVERNMENT BONDS

EUROPEAN bond markets clawed back some of Monday's losses but ended narrowly mixed in moderate turnover. Flows were thin as investors continued to digest last week's round of rate cuts, and with little fresh news expected this week, most markets are expected to continue consolidating.

■ UK GILTS ended slightly firmer as participants prepared for today's auction of 6 per cent gilts due 1999, next year's new five-year benchmark.

Despite its £3.5bn record size, the auction is expected to go smoothly, supported by firm demand from overseas and domestic investors. Expectations of near-term easing have caused short to medium-dated paper to outperform longer maturities in recent weeks and are expected to ensure strong demand for the new paper.

Analysts are calling for a bid-to-cover ratio of around 1.5 to 2 times and a tail – the difference between the highest accepted yield and the average accepted yield – of around three basis points. Late in the day the bonds were quoted at 49 1/32 on a when-issued basis, yielding 6.21 per cent.

■ GERMAN government bonds began the day on a firmer footing after overnight buying by Far-Eastern accounts, but early gains were eroded by profit-taking on disappointment over preliminary October inflation data and D-Mark weakness following last week's ½-point cut in key German rates.

The December bund contract opened at 100.04, rose as high as 100.24 and closed at 100.13, up 0.05 point on the day.

While some see further downside at the long end of the yield curve, others expect it to remain well supported. "I'm pulling in my bear claws," said Mr Karl Haeling, head of International Futures and Options at Deutsche Bank, who expects the technical uptrend to remain intact. "While we are in a consolidation phase, I feel there are bigger chances for a break to the upside than to the downside."

■ ALTHOUGH the French franc strengthened slightly against the D-Mark, French bonds edged lower on the day, pressured by the announcement of new 5.5 per cent 10-year bonds to be auctioned next week. The notional bond futures contract traded on Matif fell 0.14 point to 124.52.

■ JAPANESE government bonds hit new six-year highs, with the December JGB bond futures contract rising 0.11 point from Friday to 113.98. The rally was spurred mainly by investors switching out of stocks into bonds after the Nikkei stock index fell by 286 points to 20,024 – perilously close to the psychological 20,000 level.

Sentiment was also buoyed by expectations that today's 10-year government bond auction would go well, despite the expected increase in the issue size to Y1,000bn, from the usual Y800bn.

■ THREE days of heavy selling at the long end of the US Treasury market ended yesterday morning when bond prices posted modest gains in the wake of a weak consumer confidence report.

In early afternoon trading, the benchmark 30-year government bond was up 5/32 at 103 19/32, yielding 5.985 per cent. At the short end of the market, the two-year note was up 1/32 at 99 15/32, to yield 3.891 per cent.

Treasury prices opened firmer and held their ground in positive territory, thanks to news of a decline in the Conference Board's consumer confidence index. The index, which fell from 63.8 in September to 59.4 in October, indicated that consumers remain concerned about the weakness of the economy, and cheered bond investors, who had seen prices plummet and yields soar over the previous three days.

Analysts said that most of the buying was limited to dealers, and that retail accounts were staying on the sidelines until the afternoon auction of a record $16.5bn in two-year notes.

■ CANADIAN government bonds slid sharply in the wake of Canada's national elections, but later recovered to trade only slightly lower in midday dealings.

The strong performance by the separatist Bloc Quebecois sent initial shudders through Canada's currency and bond markets, but prices stabilised on remarks by the party's leader Lucien Bouchard that he has no hidden agenda to disrupt parliament.

According to Mr Brian Hilliard, senior economist with Societe Generale Strauss Turnbull, "the key thing is that the Liberal Party has an absolute majority". He also said investors should take comfort from the likelihood that monetary policy will remain unchanged.

FT FIXED INTEREST INDICES

	Oct 26	Oct 25	Oct 22	Oct 21	Oct 20	Year ago	High *	Low *
Govt Secs (UK)	103.36	103.24	103.60	103.46	103.31	93.53	103.60	93.28
Fixed Interest	124.80	124.84	124.85	125.03	124.68	106.85	125.20	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 126.20 (1/9/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Oct 25	Oct 22	Oct 21	Oct 20	Oct 19
Gilt Edged Bargains	106.4	106.5	108.1	118.8	112.1
5-Day average	110.8	109.0	108.2	107.2	104.8

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	121.1843	+0.233	6.54	6.59	6.80
BELGIUM		9.000	03/03	112.7500	+0.000	7.09	7.11	7.25
CANADA *		7.500	12/03	104.9500	-0.150	6.81	6.72	6.91
DENMARK		8.000	05/03	111.4300	-0.220	6.56	6.46	6.70
FRANCE	BTAN	5.750	11/98	101.5320	-0.000	5.39	5.47	5.53
	OAT	6.750	10/03	106.2100	-0.120	5.91	5.91	6.06
GERMANY		6.000	09/03	100.9750	+0.060	5.86	5.86	6.08
ITALY		10.000	08/03	107.6900	-0.140	9.00†	8.96	9.44
JAPAN	No 119	4.800	06/99	108.4629	+0.153	3.05	3.22	3.37
	No 157	4.500	06/03	105.7649	+0.262	3.69	3.80	3.85
NETHERLANDS		7.000	02/03	108.2200	-0.010	5.82	5.81	5.97
SPAIN		10.900	08/03	115.9800	-0.070	8.42	8.55	9.14
UK GILTS		7.250	03/98	104-20	+01/32	6.04	6.08	6.28
		8.000	06/03	106-22	+02/32	6.76	6.80	6.96
		9.000	10/08	117-12	+08/32	7.10	7.13	7.31
US TREASURY *		5.750	08/03	102-18	+16/32	5.41	5.26	5.34
		6.250	08/23	103-19	+24/32	5.99	5.85	5.89
ECU (French Govt)		8.000	04/03	111.2400	-0.040	6.38	6.35	6.66

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Regulation of OTC derivatives satisfies CFTC

By Laurie Morse in Chicago

THE USE of over-the-counter derivatives is expanding rapidly, but the risks associated with the transactions are vastly overstated, and there is no need for fundamental changes in the way they are regulated, the US Commodity Futures Trading Commission concluded in a report delivered to Congress yesterday.

"After detailed analysis of default and credit risks in these markets we have concluded there is no cause for concern," said Ms Shelia Bair, acting CFTC chairman. "However, we have identified several areas where greater co-operation between regulators would be beneficial, particularly for sharing information," she said.

The CFTC is the primary US regulator of exchange-traded futures and options, and last year was given exemptive powers over off-exchange instruments such as swaps. However, Congress is still contemplating how OTC derivatives should be regulated. The House banking committee will hold a hearing in Washington tomorrow to discuss the issue, and the CFTC's recommendations.

Finding that the "systemic and public policy issues suggested by these products are not confined to any single market or the province of any one regulator", the CFTC report recommends an inter-agency council of federal financial regulators be formed to consider common approaches to OTC derivatives.

The agency ducked suggestions that its powers be merged with its larger arch-rival, the Securities and Exchange Commission, saying such a merger would not address the problems posed by derivatives dealers not governed by either agency.

In the report the CFTC for the first time said that non-regulated subsidiaries of broker-dealers might require a second look by the government. Several broker-dealers, including Salomon Brothers, have set up separately capitalised subsidiaries to deal in swaps this year. These affiliates are subject to less regulation than their parent companies or US banks dealing in swaps.

The CFTC study, conducted with the co-operation of the Federal Reserve and the SEC, said a top priority for an inter-agency regulatory council should be the lack of comprehensive information on the OTC markets.

The absence of standardised disclosure, pricing, and risk valuation was also cited as a concern, as was the fact that end-users of OTC derivatives may need to be better versed in managing risks associated with the instruments.

Strong Asian demand for Sweden's $1bn FRN offer

By Antonia Sharpe

INTERNATIONAL BONDS

THE Kingdom of Sweden's $1bn offering of global floating rate notes (FRNs) dominated a busy day of issuance in the international bond market.

Other issuers were reported to be closely watching Sweden's three-year issue, the first sovereign global FRN offering, with a view to deciding whether to follow suit.

Joint lead managers Lehman Brothers and J.P. Morgan said a significant portion of Sweden's deal had been placed by the end of the day.

Strong demand from Asia and the Middle East compensated for a relatively disappointing response from Europe. The notes were kept in syndicate overnight to allow time to place them in the US.

The notes, which were priced at the re-offer to yield nine basis points below three-month London interbank offered rate (Libor), are expected to be freed to trade today.

Asian investors were also strong buyers of the $500m five-year Eurobond offering from Urban Mortgage Bank of Sweden, according to lead manager Nomura. UMB is well-known in Japan as a result of its bond issues in the Samurai market, the domestic Japanese bond market for foreign borrowers.

The bonds were priced to yield 68 basis points over the when-issued US Treasury due 1998 and the spread remained unchanged during official trading hours. However, some traders said the spread widened to 73 basis points in the aftermarket.

Treasury Corporation of Victoria tapped the pent-up demand for high-yielding Canadian dollar paper with its C$250m offering of 10-year Eurobonds. There has been little new issuance in the Euro-Canadian dollar sector in the run-up to Canada's general election.

TCV was thought to have swapped the proceeds of the issue into Australian dollars. However, the lack of arbitrage opportunities in the Canadian dollar market might limit further issuance in this sector, syndicate managers said.

Volatility in the swaps market was also hampering the first Eurobond issue from Trans Tokyo Bay, the Japanese government-guaranteed agency. The issuer is thought to be looking to raise $200m through an issue of 10-year Eurobonds and swap the proceeds into yen. IBJ is arranging the deal.

Elsewhere, strong international demand enabled Reliance Industries, India's largest private sector company, to increase its six-year Euroconvertible bond issue to $140m from an original $125m.

Reliance achieved a coupon of 3.50 per cent, at the bottom end of the indicated range of 3.50 to 4 per cent, and a conversion premium of 12.06 per cent, at the top end of the indicated range of 8-12 per cent.

Lead manager Morgan Stanley said the issue had been oversubscribed 10 times. The bonds were trading at 106½-107¼ yesterday, well above their issue price of par.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Kingdom of Sweden(a)‡	1bn	(a)	R99.90	Nov.1996	R0.10	-	Lehman Bros/JP Morgan
Urban Mortgage Bk of Sweden	500	5.5	R99.785	Nov.1998	R0.30	+68(Wi 5yr)	Nomura Intl.
Bandai Co.(b)ϕ	250	1	100	Nov.1997	2.25	-	Daiwa Europe
Commerzbank Over. Fin.(c)‡	150	(c)	R100	Nov.2005	R0.50	-	Kidder Peabody Intl.
Banque Paribas(g)‡	125	(g)	R99.625	Nov.2005	R0.50	-	Merrill Lynch Intl.
Health Care Prop. Invs.(d)§	87	6#	100	Nov.2000	2.50	-	Merrill Lynch Intl.
Credit Lyonnais(h)‡	50	(h)	(h)	Sep.2005	(h)	-	Kidder Peabody Intl.
Corp. Industrial Sanluis	50	9.125#	R99.352	Nov.1998	R1.00	+450(Wi 5yr)	Samuel Montagu
FRENCH FRANCS							
BSN(e)§	914	3	100	Jan.2002	-	-	Lazard Freres
CANADIAN DOLLARS							
Treas. Corp. of Victoria(f)	250	7.25	R98.26	Nov.2003	R0.35	+55(7¼%-03)	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ✱Private placement. §Convertible. ϕWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3-month Libor -0.125%. b) Fixing: 1.11.93. c) Coupon pays 6-month Libor - 0.30%; minimum 5%, maximum 8%. Subordinated issue. d) Subordinated issue. Issue carries $13m Greenshoe Option. Conversion price $37.806. e) International tranche of FFr3.5bn deal. f) Spread relates to Canadian Gv. Bond. g) Coupon pays 6-month Libor - 0.25%; minimum 5%, maximum 8%. h) Subordinated issue. Tranche of existing $150m deal. Coupon pays 6-month Libor - 0.25%; minimum 5%, maximum 8%. Fees undisclosed. Issue price variable.

Amsterdam SE changes rules

By Ronald van de Krol in Amsterdam

THE AMSTERDAM stock exchange is to lower the threshold for newcomers to the bourse as part of plans to abolish the exchange's "parallel market" for smaller, younger companies in early-1994.

Starting next year, new bourse-listed companies on the main market will need to ensure that the total value of shares tradeable on the exchange is at least Fl 10m.

This is well below the bourse's existing threshold of Fl 50m but above the Fl 5m minimum on the parallel market, a separate market established in 1982 for young companies. The parallel market, similar to the UK's Unlisted Securities Market, is to be integrated into the main market next year because it has failed to attract sufficient investors, particularly among institutions.

Under rules published yesterday, the exchange said existing companies on the parallel market will be able to move automatically to the main market provided they agree to comply with the bourse's limits on anti-takeover devices.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Latest prices at 7:00 pm on October 26

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Abbey Natl Treasury 6½ 03	1000	103	103¼		6.07
AlbertaProvince 9⅛ 95	600	109½	109⅞		4.32
Austria 8½ 00	400	116⅛	116½		5.38
Bank of Tokyo 8⅜ 96	100	107⅞	108⅜	+⅛	4.84
Belgium 9⅝ 98	250	118¼	118⅝		5.15
BFCE 7¼ 97	150	109	109½		4.77
British Gas 0 21	1500	13⅞	14¼		7.30
Canada 9 96	1000	110⅛	110⅜		4.33
CCCE 9¼ 95	300	106¾	107⅛		3.87
Cheung Kong Fin 5½ 98	500	98⅞	99⅜	-⅛	5.77
Council Europe 8 96	100	108½	109		4.65
Credit Foncier 9½ 99	300	119¼	119⅝		5.25
Denmark 9¼ 95	1571	107	107⅜	-⅛	3.99
ECSC 8¼ 96	193	110	110½	+⅜	4.70
EEC 8¼ 96	100	108⅞	109½	+¼	4.60
EIB 7¾ 96	250	108	108⅜	+¼	4.53
EIB 9¼ 97	1000	115⅝	116	+⅛	4.90
Elec de France 9 98	200	115	115⅜	+¼	5.08
Eurofima 9¼ 96	100	110½	111		4.48
Ex-Im Bank Japan 8 02	500	114¼	114⅝	+⅛	5.83
Export Dev Corp 9½ 98	150	117½	118		5.21
Finland 7⅞ 97	200	109¼	109⅞	+⅝	5.05
Finnish Export 9⅜ 95	200	109½	109⅞		4.32
Ford Motor Credit 6¼ 98	1500	103⅜	103¾	+⅛	5.44
Gen Elec Capital 9⅜ 96	300	111⅜	111⅞		4.64
GMAC 9⅛ 96	200	108⅜	109		5.26
Ind Bk Japan Fin 7⅞ 97	200	108⅞	109⅛	+¼	5.16
Inter Amer Dev 7⅝ 96	200	108⅛	108½	+⅛	4.54
Italy 6⅞ 23	3500	98⅝	99	-⅜	7.11
Japan Dev Bk 8⅜ 01	500	116¼	116⅝	+⅛	5.60
Kansai Elec Pwr 10 98	350	112¼	112⅝	+⅛	4.53
LTCB Fin 8 97	200	108	108⅝	+¼	5.23
Matsushita Elec 7¼ 02	1000	108¼	108½	+⅛	6.11
Nippon Cred Bk 10⅜ 95	150	109	109½	-⅛	4.71
Nippon Tel Tel 9⅜ 95	200	106¾	107⅛		4.11
Norway 7¼ 97	1000	107⅝	108		4.90
Ontario 7⅜ 03	3000	108⅝	109		6.21
Oster Kontrollbank 8½ 01	200	117⅛	117½	+⅛	5.59
Petro-Canada 7¼ 96	200	108⅛	108⅝		4.63
Portugal 5¾ 03	1000	98⅜	98¾	-¼	6.06
Quebec Hydro 9¾ 98	150	117¾	118¼		5.53
Quebec Prov 9 98	200	113½	114⅛	+¼	5.48
Sainsbury 9⅛ 96	150	111⅛	111⅝		4.95
SAS 10 99	200	116⅞	117⅜	+⅝	6.33
SBAB 9½ 95	500	107⅞	108¼		4.26
SNCF 9½ 98	150	117⅞	118¼	+⅛	5.14
Spain 6½ 99	1500	105½	105⅞	-⅛	5.39
State Bk NSW 8½ 96	200	109⅛	109⅝	+¼	4.78
Sweden 5½ 95	2000	102⅜	102⅝		4.29
Swedish Export 8⅜ 96	700	108¾	109⅛		4.51
Tokyo Elec Power 8¾ 96	300	110⅝	111	+⅛	4.64
Tokyo Metropolis 8¼ 96	200	110	110⅜		4.64
Toyota Motor 5⅝ 98	1500	101⅞	102¼		5.13
United Kingdom 7¼ 02	3000	110¼	110½	+⅛	5.77
World Bank 8⅜ 99	1500	115¾	116⅛	+⅛	5.32
World Bank 8¾ 97	1500	112⅞	113⅛		4.61

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Austria 5⅞ 97	500	101¾	102¼	-¼	5.28
Belgium 7¼ 02	500	109⅛	109½	-¼	6.30
Credit Foncier 7¼ 03	2000	107	107⅜	-⅛	6.23
Denmark 6⅛ 98	2000	102⅛	102⅜	+⅛	5.56
Deutsche Finance 7½ 95	1000	102¼	102½	-⅛	5.55
ECSC 8⅝ 96	700	108¾	109	-⅛	5.51
EEC 6½ 00	2900	104⅛	104⅜		5.70
EIB 7½ 99	400	109	109⅜	+⅜	5.71
Finland 7½ 00	3000	107¼	107⅝	-⅛	6.06
Ireland 7¾ 02	500	109½	110	-⅛	6.33
Italy 7¼ 98	5000	105¼	105⅜		5.82
Spain 7¼ 03	4000	106⅞	106⅞	-⅛	6.25
Sweden 8 97	2500	108⅛	108½		5.62
Tokyo Elec Power 7⅝ 02	1000	108¾	109	-¼	6.32
United Kingdom 7⅛ 97	5500	105⅞	106	-⅛	5.45
Volkswagen Intl Fin 7 03	1000	102¾	103⅛		6.60
World Bank 0 15	2000	27⅝	27⅞		5.98
World Bank 5¾ 98	300	102	102½		4.83
World Bank 8¾ 00	1250	118	118½		5.36

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Asian Dev Bank 6 10	100	115½			4.56
Council Europe 4¾ 98	250	102½	103		4.10
EIB 6¾ 04	300	114½	115		5.00
Elec de France 7¼ 06	100	117⅜	117¾		5.30
Finland 7¼ 99	300	114½	115		4.42
General Motors 7½ 95	100	103½	104		4.89
Hyundai Motor Fin 8½ 97	100	109½	110½	-½	5.69
Iceland 7⅞ 00	100	116½	116¾	+½	4.71
Kobe 6⅜ 01	240	112¼	112½		4.47
New Zealand 4⅞ 99	200	101¼	101¾	+¼	4.60
Ontario 6¼ 03	400	111½	112	+½	4.68
Quebec Hydro 5 08	100	100	100½		5.00
SNCF 7 04	450	119½	120		4.68
World Bank 6 03	150	103½	106	+½	4.35
World Bank 7 01	600	118¼	118¾	+¼	4.38

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Belgium 5 99	75000	106¾	107	+⅛	3.75
Denmark 7 95	40000	105⅜	105⅝	-⅛	2.60
EIB 6⅝ 00	100000	115½	115¾	+⅛	3.54
Elec de France 5⅝ 96	20000	107½	108		2.97
Finland 6¾ 96	50000	109	109¼	+⅛	2.83
Inter Amer Dev 7¼ 00	30000	120	120¼		3.75
Japan Dev Bk 5 99	100000	107⅞	108⅛		3.51
Japan Dev Bk 6½ 01	120000	118⅜	118¾		4.00
Nippon Tel Tel 5⅞ 96	60000	108⅜	108⅝		2.64
Norway 5⅛ 95	80000	103½	103¾	+⅛	2.60
SNCF 6¾ 00	30000	118⅛	118⅜	+⅛	3.83
Sweden 6⅜ 95	20000	106⅛	106⅜		2.83
World Bank 6¾ 00	50000	118⅜	118⅝	+⅛	3.81

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Arbed 7½ 95 LFr	600	99⅞	100⅛		7.87
Genfinance Lux 9⅛ 99 LFr	1000	107¼	110½		7.44
World Bank 8 96 LFr	1000	101½	102½		7.29
Bank Voor Ned Gem 7⅜ 02 Fl	1000	109⅜	109¾		6.24
Energie Beheer 8¾ 98 Fl	500	111⅛	111⅝		6.12
AlbertaProvince 10⅝ 96 C$	500	110	110½	+⅛	5.82
Bell Canada 10⅝ 99 C$	150	115⅛	115⅝	-¼	7.28
British Columbia 10 96 C$	500	109½	110	+⅛	5.93
EIB 10⅛ 98 C$	130	113⅞	114¾	+⅛	6.37
Elec de France 9¾ 99 C$	275	113½	114	+½	6.87
Gen Elec Capital 10 96 C$	300	108¾	109½	-⅛	6.25
KfW Int Fin 10 01 C$	400	115	115½		7.28
Nippon Tel Tel 10¼ 99 C$	200	115⅛	115⅝	+⅛	7.06
Ontario 8 03 C$	1500	103½	103⅞	+¼	7.62
Ontario Hydro 10⅞ 99 C$	500	116¾	117¼	+⅛	7.03
Oster Kontrollbank 10¼ 99 C$	150	115¼	116	+¼	6.93
Quebec Prov 10½ 98 C$	200	114¾	115½	+⅛	6.96
Belgium 9⅛ 96 Ecu	1250	108¼	108½	+⅛	6.21
Council Europe 9 01 Ecu	1100	115⅛	115⅜	+⅜	6.52
Credit Lyonnais 9 96 Ecu	125	105½	106⅛	+½	6.55
EIB 10 97 Ecu	1125	111¼	111½	+⅛	6.11
Ferro del Stat 10⅛ 98 Ecu	500	112	112½		6.74
Italy 10¾ 00 Ecu	1000	120⅛	120½	+¼	6.79
Spain 9 96 Ecu	1000	108⅛	108½	+⅛	6.21
United Kingdom 9⅛ 01 Ecu	2750	115⅞	116¼	+⅜	6.34
AIDC 10 99 A$	100	114⅞	115½	-⅛	6.73
BP America 12¼ 96 A$	100	112⅞	113⅜	-⅛	6.18
Comm Bk Australia 13¾ 99 A$	100	132⅞	133⅜	-⅛	6.80
Eksportfinans 12⅜ 95 A$	75	109⅝	110½	-¼	5.84
McDonalds Canada 15 95 A$	100	114⅜	114¾	+⅛	5.69
NSW Treasury Zero 0 20 A$	1000	14¾	15	-¼	7.32
R & I Bank 7¾ 03 A$	125	103¾	104¼	-½	7.19
Sth Aust Govt Fin 9 02 A$	150	111⅛	111½	-½	7.26
Unilever Australia 12 98 A$	150	120½	121	-⅛	6.52
Abbey Natl Treas 13⅜ 95 £	100	109⅝	110⅛	-¼	5.63
Alliance Leics 11⅞ 97 £	100	114¾	115¼	-⅛	6.54
British Gas 12¾ 95 £	300	108½	108⅞	-⅛	5.71
British Land 12½ 16 £	150	136⅝	137⅛	+⅛	8.94
EIB 10 97 £	837	111	111⅜		6.16
Halifax 10⅜ 97 £	100	111⅞	112⅜		6.31
Hanson 10⅜ 97 £	500	111⅞	112¼		6.86
HSBC Holdings 11.69 02 £	153	121½	122		8.15
Italy 10½ 14 £	400	124½	125	+⅛	8.02
Land Secs 9½ 07 £	200	110⅞	111¼	+⅛	8.13
Ontario 11⅛ 01 £	100	120½	120⅞	-⅛	7.38
Powergen 8⅞ 03 £	250	109½	109⅞	-⅛	7.42
Severn Trent 11½ 99 £	150	119⅝	120⅛	-⅛	7.17
Tokyo Elec Power 11 01 £	150	122⅜	122⅝	+⅛	7.08
World Bank 11¼ 95 £	100	107⅞	108⅜	-⅛	5.75
Abbey National 0 98 NZ$	100	83⅛	84⅛	+⅛	6.49
TCNZ Fin 9¼ 02 NZ$	75	115¾	116¾		6.78
CEPME 10 95 FFr	2000	106½	106⅞		5.77
Elec de France 8¾ 22 FFr	3000	123¾	124¼		6.83
SNCF 9¼ 97 FFr	4000	111	111⅜	-⅛	5.84

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
Banco Roma 0 99	200	99.48	99.66	3.1875
Belgium 1/16 97 DM	500	99.88	100.08	6.4375
BFCE -0.02 98	350	99.82	99.96	3.2500
Britannia 0.10 96 £	150	99.83	99.93	6.1625
CCCE 0 06 Ecu	200	98.78	99.03	7.5469
Citicorp Bkg ¼ 96	400	99.97	100.31	5.2500
Credit Lyonnais 1/16 00	300	100.13	100.55	5.0000
Denmark -⅛ 96	1000	99.58	99.70	3.1875
Dresdner Finance 1/16 98 DM	1000	99.91	100.02	6.9688
Elec de France ⅛ 99	400	101.82	102.59	5.2500
Ferro del Stat 1/16 97	420	99.84	99.89	3.2875
Finland 0 97	1000	99.89	99.98	3.5000
Halifax BS 1/16 95 £	350	99.94	100.02	5.8750
Ireland 0 98	300	99.66	99.81	3.4400
Italy ⅛ 98	2000	100.16	100.25	3.4375
Leeds Permanent ⅛ 96 £	200	99.93	100.03	6.0625
Lloyds Bank Perp S 0.10	600	82.50	84.00	3.5375
Malaysia 1/16 05	650	100.15	100.62	6.2500
Nationwide 0.08 98 £	300	99.74	99.85	6.2060
New Zealand ⅛ 96	250	100.01	100.15	3.4380
Renfe 0 98	500	99.44	99.63	3.1250
Societe Generale 0 98	300	99.85	99.85	3.2812
Staatsbank Berlin -0.05 98 DM	6000	99.90	99.98	6.6885
State Bk Victoria 0.05 99	125	99.46	99.68	3.8500
Sweden 0 98	1500	100.02	100.11	3.2500
United Kingdom -⅛ 96	4000	99.84	99.89	2.9375

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
Browning-Ferris 6¾ 05	400	52½	101⅛	102	
Chubb Capital 6 98	250	86	111⅝	112⅝	+16.36
Eastman Kodak 6⅞ 01	300	50.67	114⅞	115¾	-1.34
Gold Kalgoorlie 7½ 00	65	1.0554	108¾	109⅜	+62.11
Hanson 9½ 06 £	500	2.5875	121¼	121⅝	+16.41
Hawley Pref 6 02	400	18.1	133	134½	
Land Secs 6¾ 02 £	84	6.72	106⅞	107⅞	-2.42
Lasmo 7¾ 05 £	90	5.64	94⅞	95⅞	
Mitsui Bank 2⅝ 03	200	2332.6	102⅝	104⅝	+13.47
Mount Isa Fin 6½ 97	100	2.283	101½	102⅛	+66.93
Natl Power 6¼ 08 £	250	4.33	112½	113⅝	+17.66
Ogden 6 02	85	39.077	98½	99½	+53.20
Smith Nephew 4 02 £	90	1.775	132¾	133⅝	+84.20
Sumitomo Bank 3⅛ 04	300	3606.9	98⅞	99⅛	+21.49
Sun Alliance 7¼ 08 £	155	3.9	113⅞	114½	+16.58
Tesco Capital 9 05 £	200	2.51	121⅛	122¼	+39.46
Texas Instruments 2¾ 02	300	82⅞	101⅝	102⅝	+31.34

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price: the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	48	7	25
Other Fixed Interest	3	3	9
Commercial, Industrial	265	300	847
Financial & Property	149	130	548
Oil & Gas	17	22	40
Plantations	2	0	6
Mines	27	44	68
Others	37	38	62
Totals	548	544	1,605

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
-	F.P.	-	121	94	Anglian Water Wrts	111	-4	-	-	-	-
100	50		62	53	BZW Endowment Fund	55	+½	-	-	-	-
§460	F.P.	-	475	465	Cantab Pharmaceuticals	468		-	-	-	-
90	F.P.	-	130	95	Crockfords	123	-1	W5.2	2.3	5.3	9.8
100	F.P.	-	98	93	Fleming Chinese Inv Tst	95		-	-	-	-
-	F.P.	-	59	53	Do. Warrants	57		-	-	-	-
-	F.P.	-	111	105	Gartmore Shared Equity	108½	-½	M8.6	-	11.0	-
-	F.P.	-	104¼	103	Do. Zero Div. Pf.	103½	+½	-	-	-	-
100	F.P.	-	96	89	HTR Japanese Smaller	90½	-1	-	-	-	-
-	F.P.	-	54	47	Do Warrants	47	-2	-	-	-	-
130	F.P.	-	141	139	Hamlet	139		L6.6	2.0	5.2	12.1
-	F.P.	-	15	10	Lon. Fin. & Inv. Wnts.	14½		-	-	-	-
§130	F.P.	-	133	127	Parkdean Leisure	133		W4.35	2.0	4.1	15.3
-	F.P.	-	5¼	4¼	Regent A	5¼		-	-	-	-
-	F.P.	-	414	315½	Rothmans Intl. Units	408½	+6½	W12.52	2.5	3.8	12.8
§280	F.P.	-	323	310	Scotts	311	-5	-	-	-	-
-	F.P.	-	11	9½	✱Select Industries	9½		-	-	-	-
§112	F.P.	-	118	98	Shield Diagnostics	98	-3	-	-	-	-
§115	F.P.	-	123	114	VHE Holdings	115	-3	L3.5	2.6	3.8	12.7
-	F.P.	-	339	311½	Vendome Luxury Uts.	313	-4	W07.88	2.8	2.5	14.6
§170	F.P.	-	323	284	Virtuality Group	288	-5	-	-	-	-
-	F.P.	-	3¼	3	Wiggins	3¼		-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price £	+ or -
-	F.P.	-	117	108	Ex-Lands 7½pc Cv Ln 2020	114½	
-	F.P.	-	92½	89	Ivory & Sime Ent. Cap. Cv Ln 2000	89	
-	F.P.	-	115½	104½	Natl. Power 6¼pc Cv Bds 2008	115¼	-¼
-	F.P.	-	101½p	100¼p	Sun Alliance 7¼pc Pf	101¼p	
-	F.P.	-	118½	107	Wilson 6¼pc Bds	118	-½

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
8	Nil	29/11	1pm	1pm	Birkdale	1pm	
370	Nil	12/11	65pm	55pm	Blick	65pm	+5
30	Nil	10/12	4pm	¼pm	Costain	¾pm	-½
80	Nil	10/12	28pm	25pm	Fenner	25pm	
1	Nil	1/11	1pm	½pm	✱Flagstone	½pm	
187	Nil	10/12	35pm	28pm	Frost	35pm	+2
130	Nil	2/11	23pm	18pm	JIB	23pm	
260	Nil	2/11	77pm	48pm	MB Caradon	77pm	
375	Nil	6/12	125pm	116pm	Matthew Clark	125pm	
330	Nil	29/11	68pm	56pm	Mersey Docks	67pm	
8	Nil	28/10	4pm	2pm	Phoenix Timber	2pm	
28	Nil	2/12	14pm	10pm	Safeland	10pm	
195	Nil	12/11	28½pm	22pm	Takare	22pm	
2½	Nil	10/12	¼pm	¼pm	Wentworth	¼pm	
15	Nil	27/11	3pm	3pm	Wescol	3pm	
215	Nil	8/12	35pm	31pm	Yule Catto	34pm	

pm Price at a premium. For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

● First Dealings	Oct. 11
● Last Dealings	Oct. 22
● Last Declarations	Jan. 13
● For settlement	Jan. 24

3-month call rate indications are shown in Saturday editions.

Calls: Aminex, HK Inv., Kewill, RIT Pref., Pentland, Porter Chad., Rhino, SEET, Telemetrix, TR Tech., Wilshaw, Wood (JD). Puts: Aminex, Ferranti, Greycoat, Pentos, Storm. Puts & Calls: Casket, Haemocell, Kewill, Merivale Moore, Monument Oil, Porter Chad., Scotia, Telemetrix

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied-Lyons	550	44	53½	64	1	10½	16
(*591)	600	2	23½	34½	12	32½	38
Argyll	300	11½	23	32	1	14	18½
(*310)	330	1	9½	16	22½	32½	36
ASDA	48	8½	-	-	1	-	-
(*55)	57	1	-	-	3	-	-
Brit Airways	360	16½	29½	39½	1	14½	19
(*374)	390	1	15½	24½	17½	32	35
SmKl Bchm A	420	12½	31	42	1½	22	27½
(*429)	460	1	14	25	33	45½	50½
Boots	500	16	30	43½	1	16	23
(*514)	550	1	9½	20½	36	47½	52
BP	330	9	20	27½	1	12	16
(*337)	360	1	8	14	24	29½	33
British Steel	120	10½	18½	20½	1	5½	8½
(*129)	130	2	10	18½	2½	11	13½
Bass	460	30½	37½	43½	1	14½	20½
(*487)	500	1½	14	23½	15½	37½	42½
Cable & Wire	950	7	52½	76	7	44½	57
(*951)	1000	1	30½	53½	53½	74½	86
Courtaulds	460	35½	46½	57½	1	9½	15
(*493)	500	2	23	34	10½	26	32½
Comm Union	629	15½	-	-	2	-	-
(*641)	677	1	-	-	39	-	-
GKN	460	18	-	-	1	-	-
(*478)	500	1	-	-	28	-	-
ICI	681	33½	57	-	1	15	-
(*711)	750	1	20½	28½	41½	51	68½
Kingfisher	632	17½	-	-	1½	-	-
(*645)	660	3½	31½	47	7½	27	35½
Land Secur	700	38½	60½	63½	1	12	18
(*735)	750	1½	22½	34	17½	35½	42
Marks & S	390	14	28	34½	1	11	15
(*403)	420	1	12	19½	19	27	31
NatWest	550	17½	38½	45½	1	15	27
(*565)	600	1	14½	22	37½	46	56
Sainsbury	420	3	26	38½	3	18½	23½
(*424)	460	1	11	21	37	44½	47½
Shell Trans.	700	11½	36	43	1½	17	30
(*709)	750	1	13½	20½	43	47	59½
Storehouse	200	2½	12½	16½	3	11½	14½
(*200)	220	1	5	8½	22	25½	28
Trafalgar	92	5	-	-	1½	-	-
(*96)	101	1	-	-	6	-	-
Unilever	1150	7½	45	68½	7	36	54
(*1150)	1200	1	22½	35	54½	69	83½
Zeneca	750	44	69	79½	1	16	32
(*791)	800	3½	38½	61	12	37	57

Option		Oct	Feb	May	Oct	Feb	May
Grand Met	420	6	25	35½	2½	25	27½
(*423)	460	1	9½	19	38	51	53
Ladbroke	160	20½	28½	30	1	5½	9
(*178)	180	1½	16½	18	4	14½	19½
Utd Biscuits	360	10	30½	36	1½	16	27
(*387)	390	1	16½	21½	25½	33	45

Option		Oct	Dec	Mar	Oct	Dec	Mar
[illegible]	160	7½	14	21½	1	8½	13½
(*167)	180	1	5½	13	14	21	25½

Option		Nov	Feb	May	Nov	Feb	May
Brit Aero	390	15½	36	49	22½	40½	50
(*410)	420	5	22½	34	53½	66½	75½

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
BAT Inds	475	19	33½	-	8	18½	-
(*482)	500	8	21	24½	23	32	44
BTR	360	16	28	29½	5	11	16½
(*368)	390	3	11½	16	24	28	34
Brit Telecom	460	12	21½	29½	8½	19½	23
(*461)	500	1½	7	13½	40½	48	49½
Cadbury Sch	453	34	46½	49	3	8½	17
(*481)	493	8	22½	26½	17½	27	37½
Eastern Elec	600	25	38½	49½	7½	20½	25½
(*614) ●	650	4	16	26	38½	49½	53½
Guinness	390	36	48	54½	3	9½	17
(*419)	420	14½	29	36	13½	22	30½
GEC	330	16	24	30	4	10½	13½
(*340)	360	2½	9	15½	22½	28	30
Hanson	260	15	20	23	3	8	11½
(*271)	280	3½	9½	13	12	18½	21½
Lasmo	140	11½	18	23½	5	9	12½
(*146)	160	3	9½	15	16½	21	24
Lucas Inds	160	13½	21	24½	3½	7½	12½
(*168)	180	3½	10½	14½	15	19½	23½
P & O	550	23½	44	54	9½	21½	30
(*582)	600	4½	20½	30	42½	50½	56
Pilkington	140	10½	15½	18½	4	9½	12½
(*145)	160	2½	7	9½	17½	22½	24½
Prudential	360	17½	29	33	5	11	18
(*370)	390	3½	13½	17½	22½	27½	35
RTZ	650	43	62½	70	5	16	23
(*682)	700	12½	33	43½	27	38	48½
Redland	500	55	70	78½	2½	11	20½
(*548)	550	18	38½	46	16½	30	42½
Royal Insce	300	24	28½	33½	1	11½	14½
(*314)	330	4	[illegible]	18½	[illegible]	[illegible]	30
Scot & New	444	31	-	-	3	-	-
(*466)	492	8½	-	-	19	-	-
Tesco	220	8½	17	22	7½	14	19
(*220)	240	2½	8½	13	22	26½	31½
Vodafone	550	27½	46	58	14	29	38½
(*580)	600	8½	23½	36	47½	59	66½
Williams	330	13	25	29	7½	15	22
(*333)	360	2½	11½	15½	29	33	40

Option		Nov	Jan	Apr	Nov	Jan	Apr
BAA	850	35½	48	66	9½	23	30½
(*870)	900	9½	22½	41	38½	50½	57
Thames Wtr	550	17	27	37	12½	19½	24½
(*559)	600	1½	8	15½	51	53½	58½

Option		Dec	Mar	Jun	Dec	Mar	Jun
Abbey Natl	390	32	40	44	5½	13	18½
(*413)	420	13	22	27½	17	28	31½
Amstrad	45	6	8½	10	2½	4	5
(*48)	50	3	6	8	5	6½	7½
Barclays	550	27	40½	48	15	26	31
(*558)	600	6½	17½	25½	47	55½	58½
Blue Circle	280	25	34½	37½	8	12½	16½
(*294)	300	10	24	27	13	22	30
British Gas	330	18½	28	32½	6½	10	17
(*340)	360	6	13	17	23½	26½	33
Dixons	260	25½	35	41½	6½	14½	18½
(*276)	280	14½	24	31½	15½	24	28
Eurotunnel	460	39	-	-	21½	-	-
(*470)	500	18	-	-	44½	-	-
Hillsdown	160	7	14	16½	8	12	17½
(*161)	180	1½	7	8½	24	26	31½

Option		Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
Lonrho	120	12	16½	19½	5½	11	12½
(*124)	130	7	12	15	11	16	17½
Natl Power	390	32½	42½	49	4	9½	15
(*419)	420	14	24	31	15½	21	28½
Scot Power	390	34	39½	47	3	9	11
(*416)	420	13	21½	29	14	21½	24½
Sears	110	9	13	14½	3	5	7½
(*115)	120	4	7½	9	8	10½	13
Forte	200	25	31½	33½	3½	7½	12
(*219)	220	11½	19½	22½	10½	16	21½
Tarmac	135	12½	17½	21	5½	9½	14
(*140)	155	4	8½	12½	18½	22	25½
Thorn EMI	900	50	65½	84	16½	33	39½
(*926)	950	23	43	57	42½	59½	65½
TSB	220	11	16	21	9	15	18½
(*220)	240	4	8	13	23	28	30½
Tomkins	240	22	29	35	4½	9½	12½
(*257)	260	10½	18½	24½	13	18½	22
Vaal Reefs	80	13	-	-	7½	-	-
(*$84)	90	8	-	-	13½	-	-
Wellcome	800	42	68½	85½	36½	54½	66½
(*812)	850	21	46½	62½	67½	85	96

Option		Dec	Apr		Dec	Apr	
Glaxo	650	63	86½	-	16½	37	-
(*690)	700	34	60½	-	37½	62	-
HSBC 75p shs	700	61	83	-	13	32½	-
(*741)	750	30	54½	-	53	63½	-
Reuters	1650	74	120	-	49½	86½	-
(*1681)	1700	50	92½	-	73½	111	-

Option		Dec	Feb	May	Dec	Feb	May
Rolls-Royce	137	21½	24	-	2½	5	-
(*153)	156	8	13	-	10	13½	-

EURO FT-SE INDEX (*3165)

	2925	2975	3025	3075	3125	3175	3225	3275
CALLS								
Nov	243	195	147	104	62½	32½	13½	4½
Dec	263	217	172	131	93½	62	38	21½
Jan	275	-	189	-	116	-	61	-
Mar	237	-	216	-	148	-	89	-
Jun †	314	-	241	-	178	-	125	-
PUTS								
Nov	2	2½	5	9½	19	37½	68½	109
Dec	8	12	17	25	37	55	80½	113
Jan	15½	-	28	-	53½	-	97	-
Mar	29	-	46	-	73½	-	115	-
Jun †	41	-	64	-	97	-	141	-

FT-SE INDEX (*3165)

	2900	2950	3000	3050	3100	3150	3200	3250
CALLS								
Nov	270	221	172	126	82½	47	22	7½
Dec	286	239	194	150	112	78½	51	30½
Jan	299	255	211	172	134	102	73½	50½
Feb	310	268	224	186	149	118	91½	69½
Jun †	334	-	257	-	192	-	137	-
PUTS								
Nov	1	1½	3½	7½	14	28½	55½	95
Dec	6½	9	13½	20	31½	48	71	103
Jan	14½	20½	28	38½	48	66½	89½	118
Feb	19	25	32½	43½	57½	76½	100	129
Jun †	38½	-	58½	-	92	-	136	-

October 26 Total Contracts 29,391
Calls 14,256 Puts 15,135
FT-SE Index Calls 2,389 Puts 4,973
Euro FT-SE Calls 196 Puts 1,707
*Underlying security price. †Long dated expiry months.
Equity premiums are based on closing offer prices.
Index options are settlement prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Tue Oct 26	Day's change %	Mon Oct 25	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	129.02	+0.03	128.98	1.67	9.80
2	5-15 years (23)	157.28	+0.09	157.14	1.72	11.06
3	Over 15 years (8)	178.88	+0.34	178.28	2.82	9.70
4	Irredeemables (6)	207.33	+0.21	206.90	-0.18	13.47
5	All stocks (62)	152.66	+0.12	152.48	1.90	10.54
	Index-Linked					
6	Up to 5 years (2)	190.17	-0.11	190.39	0.34	4.28
7	Over 5 years (11)	187.01	+0.17	186.70	0.74	4.29
8	All stocks (13)	186.42	+0.14	186.17	0.70	4.27
9	Debs & Loans (66)	145.08	+0.19	144.80	2.01	9.50

AVERAGE GROSS REDEMPTION YIELDS

			Tue Oct 26	Mon Oct 25	Year ago (approx.)
	British Government				
1	Low	5 years	6.01	6.02	7.10
2	Coupons	15 years	6.95	6.96	8.39
3	(0%-7¾%)	20 years	7.07	7.07	8.58
4	Medium	5 years	6.25	6.26	7.37
5	Coupons	15 years	7.08	7.11	8.70
6	(8%-10¾%)	20 years	7.14	7.17	8.97
7	High	5 years	6.41	6.41	7.63
8	Coupons	15 years	7.29	7.31	9.02
9	(11%-)	20 years	7.31	7.34	9.15
10	Irredeemables (Flat Yield)		7.20	7.21	9.07
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.22	2.17	2.45
12	Inflation rate 5%	Over 5 yrs.	3.11	3.12	3.81
13	Inflation rate 10%	Up to 5 yrs.	1.38	1.33	1.66
14	Inflation rate 10%	Over 5 yrs.	2.93	2.94	3.63
15	Debs &	5 years	7.81	7.86	8.80
16	Loans	15 years	8.00	8.02	10.02
17		25 years	8.14	8.16	10.29

Andrew Bolger and Daniel Green on the softly, softly approach to a former force in the defence industry

Declining fortunes of Ferranti

A BUYER of Ferranti International would be acquiring a mixed bag of businesses. Today the company is a software house and systems integrator with a staff of 3,700.

It has a £200m order book, a pensions surplus of more than £100m, and shareholders funds of roughly £55m. It has large accumulated losses that could be offset against taxation.

Net debt is £85m.

Perhaps its most successful business is the 50:50 joint venture in sonar with French company Thomson-CSF, which has a contract to supply sonar for the UK's Trident nuclear submarine programme.

Ferranti also has an installed base of customers for naval command and control equipment. Customers include the Royal Navy and the navies of Brazil and South Korea.

In systems integration, it has a business that has worked on Saudi Arabia's air defence system and is still awaiting confirmation of a £100m order for a similar system for Bahrain.

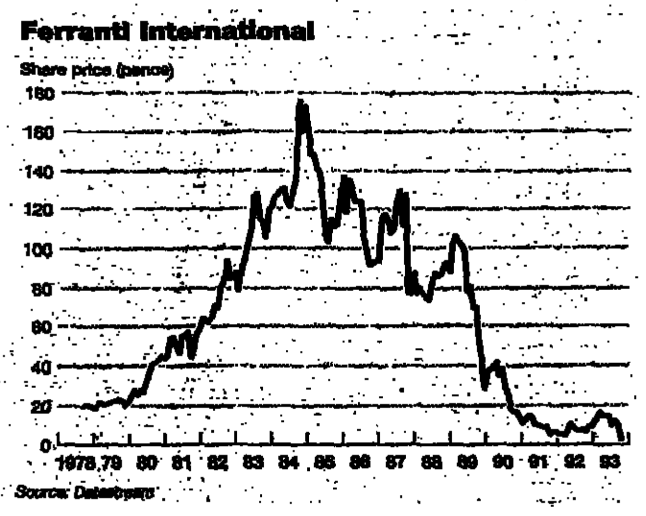
Finally, it has a series of small suppliers of training services and components such as fuses for munition.

The dismantling of Ferranti was precipitated in 1989 by the discovery of huge fraud in International Signal and Control, the US subsidiary which it bought in 1987.

A secretive defence group, the bulk of ISC's business had traditionally been in supplying bombs and security systems in the Middle East.

Ferranti's merger with ISC in 1987 was hailed as a natural marriage, even if its motivation for Ferranti was basically defensive. Both companies were military electronics contractors, but seemed to overlap very little. With 59 per cent of the combined group, Ferranti's control of it was assured.

A new group thus came into being with a market value of £1bn. It was hailed as a main force in global defence industries, with 26,000 employees in a dozen countries and an order book worth more than £1.5bn.



Two years later, Ferranti revealed it had been the victim of a cleverly orchestrated fraud. The UK company had paid £420m for a company which it later said had zero net worth at the time of the purchase and made no net profits in the five years before the merger.

Mr James Guerin, ISC's founder, had become deputy chairman of Ferranti. He is now serving a 15-year sentence for financial fraud and illegal arms sales.

Discovery of the fraud blew a hole in Ferranti's balance sheet which it has since been desperately struggling to repair by selling bits of itself – including parts that were its pride and soul.

GEC picked the prize fruit of the Ferranti empire after the ISC debacle. In 1990, it paid £310m for Ferranti's radar division.

The business dated back to the Second World War and included the project leadership for the radar to equip the European Fighter Aircraft.

Last year, GEC-Marconi bought the company's missile business for £38m.

KPMG Peat Marwick, the UK's second largest accountancy firm, paid £40m to Ferranti to settle litigation over the acquisition of ISC, a former Peat Marwick audit client.

However, when Mr Eugene Anderson became chairman of Ferranti in 1990, it became clear that the ISC fraud was only part of Ferranti's problem: the rest of the business was not particularly well-managed either.

For Ferranti, which had been demoralised by government retrenchment, the 1987 merger had been meant to cushion the group against its former dependency on the UK Ministry of Defence and possible future failure to win important contracts such as the European Fighter Aircraft radar contract and the Type 23 frigate command and control system.

Mr Anderson would not criticise his predecessor, Sir Derek Alun-Jones.

Nevertheless, it was clear that he did not think highly of the group's organisation, the role played by head office, or the supervision of contracts.

Earlier this month Mr Anderson warned shareholders that Ferranti's first-half losses were likely to be higher than deficit of £10.9m in the corresponding period last year.

He said the company would continue to focus on its priorities of strengthening the balance sheet by equity injection or through strategic partnership while seeking to win new orders.

Eugene Anderson (above), who succeeded Sir Derek Alun-Jones (below right) as chairman. James Guerin is pictured left

Caird £25m in the red after write-down

By Richard Gourlay

CAIRD, the waste management company which has been crippled by a flurry of acquisitions in the late 1980s, yesterday reported a pre-tax loss of £25.1m for the first half of 1993, after exceptional debits of £22.9m including a £17.6m write-down of assets.

The write-down followed a review by Mr David Weir, who replaced Mr Peter Linacre as chief executive earlier this year.

Caird said a number of the landfill sites bought between 1988 and 1990 were no longer considered "commercially viable or capable of development".

Slower than anticipated disposal of aggregate stocks and non-core assets had also led to a re-appraisal of market values.

In June Caird said it would not make a payment that month of the dividend on its convertible preference shares. The group said yesterday it did not expect to pay a preference dividend on December 31 either.

Caird's ordinary shares fell 4½p to 7½p and its preference shares from 37p to 28p.

Mr Christopher Parker, finance director, said the group would be concentrating further on its core businesses. Caird now defines this as the management of landfill sites capable of taking a wide range of domestic and industrial waste rather than its current portfolio which includes some sites only licensed to take dry waste.

"The fact is we have spent too much on development of landfill sites in the last few years some of which we are now going to sell," said Mr Parker.

The group will also be reviewing plans to develop its incineration projects, including Renfrew in Scotland where the company is in dispute with the local authority.

Sales on continuing business fell by 13 per cent to £8.8m and the group reported an operating loss of £1.21m (£3.83m profits). Losses per share worked through at 45.55p (1.81p earnings).

As a result of the write-off, shareholders' funds have fallen to about £21m, leaving the company close to 100 per cent geared.

Caird said its strategy had the support of its bankers but that with its advisers it was seeking ways of strengthing its balance sheet.

Bradford Property at £17.5m

By David Blackwell

THE SALE of land near Ipswich for a Tesco superstore helped Bradford Property Trust, the UK's largest tenanted residential property company, to lift pre-tax profits by more than 50 per cent, from £11.6m to £17.5m, for the six months to October 5.

Yesterday the shares closed 8p ahead at 226p.

The surplus from property rentals increased by almost 21 per cent from £5.3m to £6.4m. Dealing profits rose from £6.2m to £11.4m following the Ipswich land sale. Total operating profit was £17.8m (£11.5m).

Interest payable increased from £545,000 to £641,000.

The interim dividend, based on the surplus from property rentals after tax and preference dividends, rose from 2.4p to 2.9p. Earnings per share were up from 5.43p to 8.11p.

The company's business centres on buying tenanted properties at a discount to reflect the statutory rights of sitting tenants and selling them with vacant possession.

Trinity Intl go ahead

Trinity International Holdings' acquisition of newspapers published by Argus Newspapers and Joseph Woodhead & Sons has been approved by the Department of Trade and Industry. The purchases will increase Trinity's share of UK regional and local newspapers from 3.5 per cent to 5.3 per cent and its ranking from eighth to sixth.

Roxboro to float with £80.5m tag

By Paul Taylor

SHARES IN Roxboro, the Newmarket-based manufacturer of specialist electronic components which is coming to market through a placing and offer for sale, were priced at 230p yesterday, valuing the group at £80.5m.

The issue, which is fully underwritten by Samuel Montagu, involves 21.7m ordinary shares of which 14.1m (65 per cent) are expected to be placed with institutions; the balance of 7.61m will be offered to the public.

The group will raise about £11.9m net of expenses from the issue. The proceeds will be used to repay debt and fund expansion.

Roxboro has forecast sharply higher trading and pre-tax profits for the current year. Trading profits after central costs, but before exceptional costs of £500,000, are forecast to more than double to £6.5m in the year to December 31, compared with £3.1m last year and £1.8m in 1991.

Earnings are expected to total 11.6p this year (or 13.3p before exceptional items). The notional dividend for the current year is forecast at 1.9p. Dealings are expected to begin on November 9.

● **COMMENT**

Since the management buy-out Roxboro's management has restructured the business and refocused Roxboro away from low-margin commodity components. The restructuring is now complete and the benefits should begin to show through next year. Profits will also benefit from the elimination of interest costs and the growth in sales of new products. Based on current year forecasts the shares are priced at a multiple of 17.3 – a substantial discount to others in the sector. This is a solid stock in a growth market at a reasonable price.

Sunset + Vine shows decline to £505,000

Profits at Sunset + Vine, the independent television production company, declined from £687,000 to £505,000 pre-tax over the 12 months to June 30.

Mr Colin Frewin, chairman, said the outcome reflected "the continuing state of flux in the UK television industry."

He added: "The impact of the first six months of the new independent television era, complicated by the new commissioning structure of the ITV network... together with the weakness of the economy had combined to make growth in the television business a very difficult task."

Turnover fell from £4.51m to £4.13m. Earnings were 6.1p (8.8p). A proposed final dividend of 2p makes a maintained 3.5p total.

Mr Noel Healy has been appointed managing director. He was formerly a director with Financiere Indosuez.

Wholesale fall leaves Bridgend at £25,000

Bridgend Group blamed a downturn in turnover at its wholesale distribution offshoot for a fall in profits from £295,000 to £25,000 before tax for the six months to end-June.

The division's sales fell from £6.32m to £5.6m leaving group turnover from continuing operations some 7 per cent lower at £7.6m. Operating profits of the sector declined from £661,00 to £317,000.

The group has interests in distribution and leisure. It said its investment programme had "paid off" and that it had received "indicative offers" for certain of its businesses.

As a result, the company expected significant sales in the second half.

Earnings per share emerged at 0.06p (0.7p) and the interim dividend is reduced from 0.2p to 0.1p.

Litho Supplies pathfinder forecasts jump to £4.3m

By Catherine Milton

LITHO Supplies, which claims to be the UK's largest independent distributor of printing products, is coming to the market through a placing and intermediaries offer likely to value the company at about £50m.

The pathfinder prospectus published yesterday forecasts pre-tax profits ahead by 27 per cent to £4.33m, compared with £3.35m for 1992, on sales of £54.7m.

Litho hopes the proceeds will break down into £15m of new money and £12m from sales by existing shareholders. Of the £12m, some £3m should go to the board and employees with £9m to institutions led by 3i.

The flotation is likely to reduce both the 53 per cent stake of existing institutional shareholders and the 47 per cent stake held by the board and employees, beyond the diluting effect of the new issue.

Mr John Byford, joint managing director and deputy chairman, said the proceeds would reduce borrowings of £9.5m.

Litho was formed during a 1991 management buy-out from Pembridge Investments which acquired various Litho businesses as part of its hostile takeover of DRG, the printing and publishing group, in 1980.

The company estimated the market for consumable products, the bulk of its turnover, at £250m a year and 50 per cent of this is supplied directly by manufacturers. Litho claims a 40 per cent share of the balance and a 10,000-strong customer base.

The highest paid director will this year receive a salary of just £34,900, excluding a profit-related bonus of £62,555.

Net assets up 48% at Govett Strategic Trust

Govett Strategic Investment Trust, the small and medium companies specialist whose shareholders recently voted for its life to be extended, had a net asset value, after taking prior charges at par, of 298.07p per share at September 30, an advance of 48 per cent on the 201.03p at the same stage last year.

Attributable revenue for the year to end-September amounted to £7.03m, down from £7.23m. Earnings per share were down from 7.36p to 7.16p.

The final dividend is maintained at 4.1p, giving an unchanged total of 6.75p.

Shareholders, who voted at an EGM in September for a continuation of the trust, in 1991 won the right to vote on its liquidation at the 1993 annual meeting and at subsequent three-year intervals.

Recession in France curbs Le Creuset

Le Creuset, the France-based but London-listed maker of cast iron cookware, announced almost static pre-tax profits of £1.16m for the six months to June 30.

Mr Paul van Zuydam, chairman, said progress had been held back by depressed conditions in France allied to high French interest rates and a relatively strong franc.

Although turnover advanced to £19.3m (£17.8m), volumes on cast iron products were down, particularly in France. However, volumes of Screwpull wine accessories continued to increase.

Le Creuset recently acquired Germany-based Wolo, which will distribute Le Creuset and Screwpull products as well as Weber Kettle barbecue grills and Zyliss kitchen helpers in Germany.

Earnings per share improved to 4.8p (4.6p).

European Leisure plans debt conversion

European Leisure, the disco and snooker hall operator, is planning to convert some of its debt into a combination of new ordinary and preference shares, writes David Blackwell.

Mr Ian Rock, chief executive, said that negotiations with banks were at an advanced stage. Details would be announced, along with full-year results, "sometime next month."

The group last March reported pre-tax profits of £54,000 on turnover of £35.3m for the six months to end-December. Net debt was £76.6m, giving gearing of 227 per cent. Distributable reserves were inadequate to pay dividends.

Mr Rock said that the restructuring proposals were not a crisis move. The group already had in place banking facilities to the end of next July.

Income rise at Marine Midland

By John Gapper, Banking Editor

MARINE MIDLAND, the US retail banking subsidiary of HSBC Holdings, yesterday reported a 62 per cent rise in net income for the third quarter of the year to $48.5m (£32.1m) against $29.9m.

The bank made no provisions for loan losses in the quarter after its non-accruing loans fell to $430m ($759.8m). Despite making no provisions, its ratio of reserves to non-accruing loans increased to 87.3 per cent (74.1 per cent).

Net interest income rose to $189.2m ($173.7m), helped by a rise in credit card assets. Total assets rose by 2.7 per cent to $16.8bn, and net yield on interest earning assets rose to 4.99 per cent (4.79 per cent).

Other operating income fell to $50.5m ($82m) because of a one-off gain from the sale of mortgage backed securities last time and a drop in fee income.

The tier one ratio of capital to risk-weighted assets, an important measure of capital strength, rose to 9.85 per cent (9.29 per cent).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Betterware	int	0.65	Jan 3	0.5	-	2
Bradford Prop	int	2.9	Jan 6	2.4	-	5.4
Bridgend	int	0.1	Jan 4	0.2	-	0.4
Caird	int	nil	-	1.33	-	1.33
Govett Strategic	fin	4.1	Jan 5	4.1	6.75	6.75
IAWS A	fin	1.1‡	-	1	2.1	2
Pressac	fin	1.82	Dec 14	1.65	2.57	2.4
River/Merc Extra	fin	1.96875	Dec 7	1.96875	7.875	7.875
Sunset + Vine	fin	2	Dec 7	2	3.5	3.5
Thames Water	int	7.4	Feb 4	6.9	-	21

Dividends shown pence per share net except where otherwise stated. §USM stock. ‡Irish pence.

Betterware's 21% rise fails to impress City

By Catherine Milton

SHARES IN Betterware yesterday fell 23p to 192p, despite the home shopping company reporting a 21 per cent increase in interim pre-tax profits.

Mr Andrew Cohen, chief executive, put down his glass and wailed: "I don't understand the stock market and I don't suppose I ever will."

The board, which brought forward publication of the results in a bid to halt a share price drop from its high for the year of 280p, declared an interim dividend of 0.65p (0.5p), payable from earnings of 5p (4.29p) per share.

Pre-tax profits rose to £7.6m (£6.3m) in the 28 weeks to September 11 on turnover of £34.4m (£29.4m), including door-to-door sales of household products up at £28.4m (£23m).

The company's sales force, which now reaches 45 per cent of the population once every eight weeks, increased by 1,000 to an average of 10,000 with revenue steady at roughly £8 per order.

Mr Cohen said he had failed to reassure some in the City about the company's ambitious plans to expand in continental Europe, although half year sales in the French operations – launched in 1991 – had exceeded £1m, giving trading profits of £100,000.

Betterware has recently started selling in Spain and is set to move into Germany in its next financial year.

"We don't seem to be able to reassure them. I am so bloody frustrated," Mr Cohen said, crumpling up his napkin.

He was unrepentant about the sale of 13 per cent of his family's then 63 per cent stake in June which precipitated the fall in the share price.

The sale raised some eyebrows in the City because Mr Cohen had previously said he had no plans to reduce the stake.

Yesterday he said firmly: "I am in the business of owning Betterware shares in the long term. If the shares continue to drop I will buy them back."

Operating profits from the main direct selling division expanded 20 per cent to £6.99m (£5.86m), a slower rate than the 23 per cent rise in sales.

Its other division, a miscellany of consumer products manufacture and coffee shops held for sale, returned operating profits of £151,000 (£140,000) on sales down at £5.97m (£6.37m).

● COMMENT

Betterware's expansion into Europe comes too late to compensate for a slowdown in UK sales growth, dropping from 25 per cent year-on-year in the first quarter to July to 19 per cent for the first half. The Cohen family's unhappily handled share sale, which opened the way for a bear raid, and results just below best expectations left the City expecting more than yesterday's business-as-usual presentation. Analysts shaved pre-tax profit forecasts to about £16m from a maximum of £18m which puts the company on a multiple of 18.8, roughly in line with the stores sector.

P&O plans flotation of US properties

PENINSULAR and Oriental Steam Navigation yesterday announced that it was preparing a market flotation of some 6,677 US garden apartments.

The apartments are part of Laing Properties Inc, a 50:50 joint venture between P&O and Chelsfield.

They were acquired when the two companies staged a £495m takeover of Laing Properties in 1990.

The takeover was effected through an investment vehicle – Pall Mall – and in March 1992 Laing's worldwide portfolio, with the exception of the US properties, was divided between P&O and Chelsfield.

P&O said it would next week file a notice with the US Securities and Exchange Commission for the flotation of the portfolio as a real estate investment trust.

REITs, property companies with management, acquisition and development capabilities, offer investors the opportunity to participate in diversified portfolios.

Analysts estimate it could be worth some $500m (£331m).

P&O said Laing Properties Inc would continue to own some 2.7m sq ft of commercial property, which was part of the dealing portfolio, and was expected to hold some 25 per cent of the REIT.

Analysts have said property sales would help P&O to reduce gearing – which stood at 70 per cent in September – and raise funds at a time when cash generation by its other operations was being hampered by recessionary markets.

Hawtal in the black

A SIGNIFICANT upturn in activity enabled Hawtal Whiting, the Essex-based automotive design engineer, to move from losses of £1.38m to profits of £402,000 pre-tax for the half year to June 30.

Turnover at £34.5m was 26 per cent ahead of last time's £27.3m.

The main contributors to the recovery were the North American and German operations; both were showing continued progress in the second half.

The UK, however, remained difficult and was so far showing little signs of recovery.

The results also benefited from a £122,000 reduction in interest charges to £545,000.

There was a swing from losses of 22.9p to earnings per share of 0.08p.

The directors said earnings had been held back in part by high tax on overseas profits which could not be offset against UK losses.

Pressac close to important order in US

By Andrew Baxter

PRESSAC Holdings yesterday announced a 6 per cent rise in annual profits and said it was "reasonably close" to winning a breakthrough order from a Japanese car manufacturer in the US for its instrument cluster circuit boards.

The Nottingham-based manufacturer of automotive, telecommunications and lighting products lifted pre-tax profits from £1.84m to £1.95m in the year ended July 31, after an exceptional charge of £147,000 (£177,000) relating to redundancies. This was despite a slight fall in turnover from £33.7m to £33m.

Earnings per share rose from 4.7p to 4.86p.

The final dividend is increased 10 per cent to 1.82p, making a total of 2.57p (2.4p) for the year.

Mr Roger Boissier, chairman, said increased demand for cars in the UK had been more than negated by a severe decline in the rest of Europe.

Excepting telecommunications and specialist engineering, demand fell during the year.

Pressac has spent more than £10.3m over the past three years to improve its production facilities, which increased efficiency and helped improve market share. Mr Geoff White, chief executive, said it had also helped the company win new business.

The completion of the instrument cluster circuitry plant in Alabama would allow the company to penetrate the important Japanese transplant market in the US.

Pressac was also looking to expand its recently-acquired automotive heated mirror business, especially in the US.

In telecommunications, Mr White said opportunities for Pressac's connectors were starting to materialise in the cable TV market.

In lighting, Mr White said the Masonlite neon component subsidiary was working with General Motors to develop neon for automotive in-car lighting and rear lights. This would take Masonlite into the automotive industry for the first time.

The increase in stocks required to cover the opening of the Alabama factory was the main reason behind a rise in net borrowings from £2.9m to £5.9m over the year for gearing of 41 per cent.

However, group borrowings related to trading activities are expected to fall during the current year.

River/Merc Extra lifts assets 53%

Net asset value per ordinary share at River & Mercantile Extra Income Trust advanced 53 per cent – from 81.07p to 123.79p – over the 12 months to September 30.

The increase compared with a rise of 24.9 per cent in the FT-A All-Share Index.

The value for the zero dividend preference shares – issued in June to raise a net £9.7m – was 102.45p per share.

Net revenue amounted to £3.45m (2.61m), equivalent to earnings per share of 9.3p, up from 7.07p.

A fourth interim dividend of 1.96875p is declared, maintaining the total at 7.875p.

Treaty that may spark a Dutch exodus

Netherlands investors face a tax threat. Andrew Jack and Ronald van de Krol report

THE "half-Dutch" sandwich is going stale; the heady "mixers" are losing their fizz. Some of the favourite nourishments in the cupboard of the tax practitioner are under threat as the process of ratifying a new US-Dutch tax treaty gathers speed.

The lower house of the Dutch parliament earlier this month approved the treaty; the upper house will consider it shortly. So too will the Senate foreign relations committee in Washington DC. Any day an interpretation of the treaty for senators will be circulated by the US Treasury.

Many British companies will be among those watching the details closely.

"Everybody you speak to now is very nervous," says Mr Bruce Lassman, head of the US tax desk at accountants Ernst & Young in London. "A large number of companies may be restructuring after this year."

Those businesses ceasing to be eligible under the revised treaty will face increases in US withholding taxes on dividends from 5 per cent to 30 per cent, and on interest payments from zero to 30 per cent.

The new arrangements are likely to threaten many UK companies which use Dutch holding companies as what tax advisers call "mixers".

They reduce tax payments by offsetting tax liabilities from operations in high-tax and low-tax countries before repatriating it to the UK, since British tax law does not allow this to take place onshore.

They will be particularly affected by provisions in a protocol agreed last month between the two governments on Swiss branches of Dutch companies, which are used for financing.

It permits the US to impose a 15 per cent withholding tax unless income from Swiss branches is taxed at more than 17.5 per cent.

Currently, finance companies in Switzerland pay only 4 per cent tax on the income remitted to a Netherlands company, which can then be repatriated to the UK without any further tax being levied.

Among other companies and individuals affected by the treaty will be those who have invested in the US through Dutch companies because they have no tax treaty of their own, such as those from Hong Kong, the Middle East, South Africa and Latin America.

They have typically invested in the US via a Dutch company, in turn owned by a Netherlands Antilles company – an arrangement known as a half-Dutch sandwich. If they invested directly, the US would levy a 30 per cent withholding tax. The US-Dutch tax treaty reduces that to 5 per cent, and a Dutch-Antilles arrangement levies just a further 5 per cent, saving them 20 per cent.

The significance of the Netherlands to the international tax industry is undeniable.

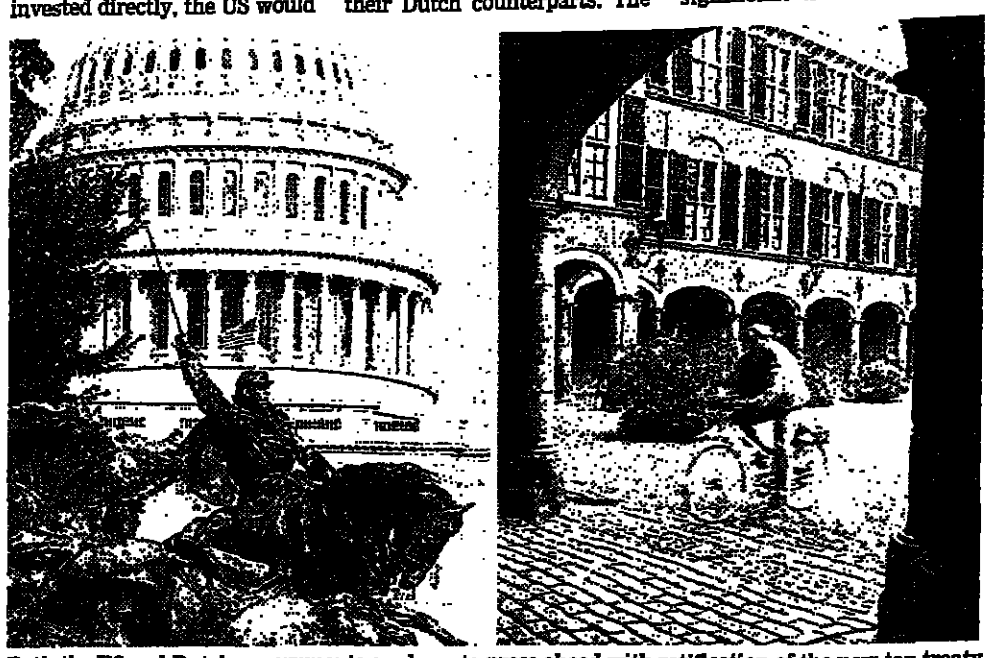
Every year, the country emerges as the third largest investor in the US, closely behind its much bigger competitors, Japan and Britain. For a country the size of the US state of Maryland, that would be quite a feat – except that it includes substantial investments through Dutch subsidiaries as well as indigenous Dutch companies.

The Netherlands' attraction as a springboard for activities in the US stems from its 1948 double taxation treaty with the United States, which is among the oldest still in effect between the world's industrialised countries.

Dutch readiness to forgo taxes on profits, royalties and interest generated outside the country has attracted many foreign companies.

Now this position is under threat. The treaty has long been a thorn in the side of US tax authorities, who have spent the last 11 years negotiating a new document with their Dutch counterparts. The result was initially signed just before Christmas last year.

The indications are that both the Dutch and the US are keen to press ahead rapidly with ratification, partly reflecting the tougher line on foreign corporations voiced by President Clinton. If both governments approve the treaty by December 1 this year, it could be in force by January 1 1995.



Both the US and Dutch governments are keen to press ahead with ratification of the new tax treaty

The original 100-page treaty and the related documents released since are highly complex. "The question is whether it is twice as long as the next longest treaty," says Mr Lassman.

Under the existing treaty, companies merely had to be registered in the Netherlands to be eligible. Now they will have to meet stringent tests to prove that they are economically "rooted" in the country. That means financing subsidiaries and mailbox companies will almost certainly be stripped of their benefits.

In general, to remain under the terms of the new treaty companies will have to show that they are rooted in the Netherlands through one of four principal justifications:

- ● Ownership. The company must be 30 per cent Dutch owned.
- ● Active trader. It must be a significant trader, through a test such as being at least a tenth the size of the US business by an average of assets, gross income and payroll.
- ● Headquarters. It must demonstrate a substantial portion of the overall supervision and administration of the group, have discretionary authority to take decisions or have subsidiaries in at least five countries, each contributing at least 10 per cent of gross income.
- ● Ruling. If it meets none of these tests, the company can still appeal for a discretionary ruling if it can argue that it was created to obtain benefits allowed under the treaty.

One way for UK companies to remain within the bounds of the treaty is to reorganise or restructure by 1995.

"It might seem a long time, but for an entire reorganisation it's actually quite short," says Mr André Boekhoudt, a tax partner at KPMG Meijburg.

Possible options for UK companies would be to transfer more staff or assets to the Netherlands, to seek a Stock Exchange listing for their Dutch-based sub-holding or to acquire industrial or business activities in the Netherlands and embed them in the existing company.

Mr Lassman says a number of companies have talked about relocating in Ireland, but that this has little benefit for UK companies. He hears many others talking about obtaining approval for their existing structures by the Internal Revenue Service in the US – which cannot take place until after ratification.

Mr Nicholas Dee, tax director of SmithKline Beecham, views the new treaty bleakly, even though his Dutch "mixer" companies do not exploit the existing treaty with the US. "It is part of a wider trend of the US attitude to international tax," he says. "If they override these treaties, there is a real risk of double taxation. Our concern is that this is an example of US imperialism."

The effects are not all negative. Dutch companies may face some extra red tape in establishing their right to invoke the treaty in the first place. But the US has thrown out at least one important concession in appeasement. Dutch pension funds may be able to receive dividend and interest income with no withholding tax, against 5 per cent at present.

ABP, the big Dutch civil servants' pension fund, said the treaty "could certainly be beneficial for us", but stressed it was still trying to understand the details.

For the Dutch economy, the implications are less clear cut. Lawyers, accountants, banks and trust companies have done a lively business in advising foreign companies on how to use the Netherlands as a tax-efficient base.

In the short-term, that activity is likely to increase as companies seek advice in untangling the implications of the new treaty.

In the long-term, many will remain because of the Netherlands' extensive network of double-taxation treaties. But there may well also be an exodus of clients.

Monarch Resources placing raises £3m

By Kenneth Gooding, Mining Correspondent

SHARES IN Monarch Resources fell 8p to 159p after the London-quoted gold company with operations in Venezuela announced a placing of 2m new shares to raise £3m net and a slight increase in interim pre-tax losses from $1.87m to $1.93m (£1.27m).

Mr Michael Beckett, chairman, said the losses for the six months to June 30, equivalent to 0.13 cents (0.128 cents) a share, were attributable to the Revemin plant, which recorded losses of $473,000 ($437,000) and to "somewhat higher overhead costs".

Turnover was $3.2m ($3.93m).

The share placing gives Monarch more flexibility to continue its heavy exploration programme while working on the La Camorra gold mine project.

Carl von Rohrer, a Munich-based fund management group which was also a sub-underwriter of Monarch's £19m rights issue in June 1992, is subscribing for the new shares at 116½p each.

Mr Beckett said the shares represented about 4.5 per cent of the enlarged capital but would be spread through various funds.

In spite of unexpected water problems during recent development work, La Camorra was on budget and on schedule to start operations in June 1994. Mr Beckett recalled that La Camorra was expected to be one of the world's lowest-cost gold mines with cash costs of about $115 a troy ounce.

Mr Anthony Ciali, president, said Revemin's performance had improved compared with the second half of 1992 when it recorded a $1.41m loss.

Drilling at the Canaima concession had resulted in indicated resources of 163,000 ounces of gold with 69,000 ounces in the "inferred resource" category.

Serco launches offer for rest of NZ associate

Serco Group, the contract management company, is paying up to £1.4m in an attempt to take its holding in Serco Group New Zealand from 47 per cent to 98 per cent.

The balance of the shares are held by management and staff in New Zealand.

Serco is offering one share for every 31.25 of B and C shares and NZ$1 (37.3p) for each D share. If accepted in full 103,040 new shares would be issued.

The four executive directors have agreed to accept in respect of shares representing 38 per cent of the issued capital. They are retaining a 2 per cent holding.

Serco NZ was the result of the privatisation in 1990 of the Property Services division of Works and Development Services Corporation.

In the year to June 30 it achieved a net profit of £268,000 on turnover of £18m. Net assets at the end of the period were £1.2m.

Acquisition behind rise to £1.1m at GBE Intl

GBE International, the engineering equipment company formerly known as Downiebrae, reported pre-tax profits of £1.08m for the half year to June 30, against £803,000.

The results were the first since the acquisition of GBE in June and were prepared on a merger accounting basis.

Turnover totalled £18.3m (£15m) with acquisitions putting in £17.3m (£14.2m). Earnings per share emerged at 1.37p (1.03p).

Mr Gerald Edwards, chairman, said the outlook for the remainder of the year was encouraging and he expected further progress to be made.

The results of the enlarged group are biased towards the second half.

The process engineering companies, which were part of the acquisition, had a good first half and were well ahead of the previous year, the company said.

However, the old Downiebrae divisions incurred losses. Mr Edwards said that an improvement in trading had recently been experienced.

Operating profits of £1.21m (£990,000) were struck after losses from continuing activities of £93,000 (£42,000). Interest payable fell to £131,000 (£187,000).

Geared Income debenture issue

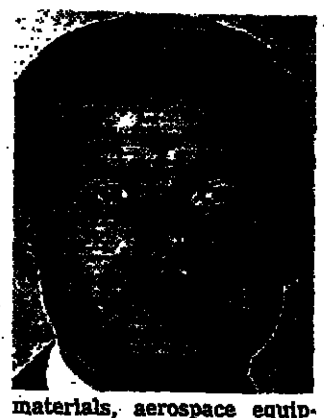
Geared Income Investment Trust has completed the issue of an unlisted zero coupon debenture to a single institutional investor to raise about £4.82m net.

The debenture, which has a semi-annual gross redemption yield of 8.263 per cent, is repayable in 10 years' time.

It is secured by a first floating charge on all the company's assets.

PEOPLE

Quarta springs into action



The gaping tear left in the management structure of motor components-to-aerospace group BBA by the forced resignation through illness of group chief executive John White in August is about to be mended.

Roberto Quarta, 44, American-born son of an Italian tailor, is to move from his main board directorship at BTR to take over White's job from November 1.

Quarta, who had been seen as one of the main rivals for BTR chief executive Alan Jackson's job as and when the latter retires, is expected to continue White's strategy of increasing BBA's growth around its core businesses of motor components, industrial materials, aerospace equipment and electrical equipment.

Some BBA watchers who have been expecting BBA's acquisition rate to slow could still be in for a surprise. Quarta, said to rejoice in the nickname CS – for coiled spring – among some colleagues, is unlikely to allow the group to mark time for long after getting his feet under White's desk.

Apart from a four-year stint with motor and aircraft components group Hitchener in the US, Quarta has been a BTR man since 1978, when BTR took over the Massachusetts controls company of which he was then a vice-president.

In addition to his main board role – undertaken at the start of this year – he has been chief executive of a number of BTR divisions, including automotive, construction services and electronics.

Pavia to quit Lasmo

Michael Pavia, finance director of Lasmo, the independent oil exploration and production company, is to leave the company at the end of the year – the latest in a series of moves among senior executives as the company searches for a strategy to see it through a troubled period of weak oil prices.

The future of Pavia, who has been with Lasmo for 14 years, had been the subject of much market speculation since the middle of last week. Joe Darby, chief executive, says his departure was "one of several changes ... following a thorough review of the company's strategy and management". Earlier this year, John Hogan was appointed chief operating officer and Peter Nolan took over as head of exploration, while Darby himself only joined the company in February.

City sentiment towards Lasmo has been decidedly gloomy of late, in large part because of its vulnerability to low oil prices, and the prospect of growing debt to finance new production.

Darby yesterday denied that any additional moves were being planned, although at least one non-executive post will open up next year.

Pavia's departure comes after a particularly active year, in which he helped Lasmo to raise $800m on the US capital markets. He also recently completed the financing of Lasmo's £350m share of the development costs for the Liverpool Bay oil and gas field, one of the projects which the company is hoping will boost its fortunes in coming years.

Lasmo says there are several internal candidates for finance director, but executive search consultants will also be used.

■ John Ainsworth (below centre), chief executive of SCAPA Group's European engineered fabrics division, is the chairman of Scapa Scandia, created by the merger of Scapa-Porritt and Scandiafelt; Brian Littler (below left) and Anders Göthlin (below right) are the joint mds. Harry Tuley remains chairman of Scapa Group.

■ Philippa Foster Back, a former finance director at D.C. Gardner and chairman of the Examination Boards of the Association of Corporate Treasurers, has been appointed group treasurer at THORN EMI.

■ Colin Child has been appointed group finance director of NATIONAL EXPRESS GROUP; he succeeds Adam Mills who continues as deputy chief executive.

■ Diana Scott-Kilvert, latterly a consultant and up to 1990 managing partner of Broadbent-Jones & Partners, has been appointed to the board of PRO NED.

■ Marcus Banfield, formerly sales and distribution director of LYONS Tetley, has been appointed md of its Turkish subsidiary, Tetley Cay Ticaret.

■ Malcolm Parkinson, a non-executive director of James Latham and a former chief executive of Woolworth Holdings, has been appointed md for Europe and the Middle East for SIEGEL & GALE, based in London.

■ Brian Summers, formerly deputy md, has been appointed md of BIRMINGHAM INTERNATIONAL AIRPORT to replace Bob Taylor when he retires in April next year.

Bodies politic

The Civil Aviation Authority has appointed Rod Lynch, 44, to its governing board. The CAA board comprises a selection of full and part-time members with financial, aviation, air safety and other appropriate qualifications and experience. It is responsible for civil aviation policy in the UK, including air traffic control and safety regulations. Its chairman is the Rt Hon Christopher Chataway, the former government minister.

Lynch is currently managing director of resources, engineering and services at the British Broadcasting Corporation, having joined the BBC from Forte Hotels – where he was sales and marketing director – in May this year.

But Lynch can offer the CAA more than guidance as to improvements in its catering. He worked for 20 years in the airline business before moving to Forte: 18 with British Airways – where he became head of customer services – and two as managing director of Air Europe.

■ Antonio Necci, md of Italian Railways FS, has been elected chairman of the INTERNATIONAL UNION OF RAILWAYS (UIC).

■ Patrick O'Shea, deputy group md of Avonmore Foods, has been elected president of the EUROPEAN ASSOCIATION OF LACTOSE MANUFACTURERS.

■ David Thomas has been promoted to take responsibility for the local government division of the CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY following the retirement of Arthur Boulter.

■ Roger Hayes (below), formerly vice-president, public and government affairs at Ford of Europe, has been appointed director-general of the BRITISH NUCLEAR INDUSTRY FORUM.

COMMODITIES AND AGRICULTURE

Tin producers agree to cut exports

By Kieran Cooke in Singapore

THE WORLD'S biggest tin producers have agreed a series of measures that they hope will reduce global stocks and raise prices.

The Association of Tin Producing Countries, at the conclusion of a meeting in Kuala Lumpur, said 1994 tin exports by member countries would be limited to 78,000 tonnes – a 13 per cent reduction from the present annual exports permitted under its quota regime.

The ATPC groups Malaysia, Indonesia, Nigeria, Thailand, Australia, Bolivia and Zaire.

For the present China and Brazil, two of the world's biggest tin producers, remain outside the association. But earlier this week the former country agreed to join the ATPC by the end of the year. China's tin exports, which are said by some ATPC delegates to have been as high as 30,000 tonnes last year, are felt to be one of the main reasons for the slump in tin prices over the past few years.

Mr Lim Keng Yaik, Malaysia's minister of primary industries, said low tin prices were also caused by increased sales of tin stocks by the US Defence Logistics Agency. Tin prices in Malaysia, once the world's biggest producer, dropped to a historic low of M$10.78 (M$4.22) a kilogram last month, compared with M$32 ten years ago.

"We hope the measures taken will induce an upward movement of prices from the current ridiculously low levels," said Mr Lim.

The association, while noting that tin prices had rallied somewhat in recent weeks, said the most important task was to reduce the global tin stockpile, at present estimated to be 40,000 tonnes. "It is reasonable to expect a meaningful depletion of around 10,400 tonnes in the stock level during 1994, thereby reducing the total overhang to a more manageable 28,500 tonnes" said the ATPC.

Keeping the faith in a falling market

Kieran Cooke talks to a mine operator who refuses to admit defeat

MR SIA Hok Kiang, a Malaysian tin miner, sat in his hut surrounded by jungle anxiously watching the latest prices on his computer screen.

The tin market was falling yet again. Ten years earlier the metal had been fetching between M$32 (US$13) and M$34 a kilogram at the Kuala Lumpur Tin Market; now it was down to M$10.80.

"It just can't go on like this," said Mr Sia. "There's no sense in tin prices being so low. By any judgment, prices will have to start rising again." He has since been proved right – last week the KLTM price touched M$12.71, but that was still well below the break-even level for most of the world's producers.

Mr Sia is managing director and part owner of the world's most extensively developed underground tin mine at Sungei Lembing, a remote settlement at the end of a valley on peninsular Malaysia's east coast.

At the turn of the century 5,000 miners were producing more than 4,000 tonnes of tin a year at Sungei Lembing. Now only 55 miners work at the mine.

"I am ashamed to say how little we are producing now," said Mr Sia. "We are mining enough to cover costs and stop the mine falling into total neglect. That's all we can do with prices being the way they are."

Malaysia was once the world's leading tin producer. Tin is part of the country's history: hundreds of thousands of immigrants from China originally came to the country to work the tin mines.

But with prices falling, tin mines have been closing. Ten years ago Malaysia was producing more than 60,000 tonnes of tin in concentrates. This year production will probably fall to below 10,000 tonnes.

Mr Sia, a geologist who, through a varied career, has prospected for gold in Peru and diamonds in central Africa, is one of the few in the tin industry confident about the future.

"Tin cannot just go out of fashion," he said. "It's still an essential metal, a vital part of so many products."

Mr Sia's optimism was based on the view that global demand for tin remained strong, at about 160,000 tonnes a year, while all the signs pointed to a fall in world production.

"There is a lot of rubbish being talked about the collapse in tin prices," he insisted. "People talk about growing production by China and about the US selling off its tin stockpiles. That alone doesn't explain the price drop. I think the market is being manipulated."

Mr Sia forecast that the world stockpile of tin, estimated at about 40,000 tonnes, would soon start to fall. And he accused some traders of inventing figures on world production and creating an artificial surplus.

"These traders are able to manipulate prices between Kuala Lumpur and London," he explained. "They buy cheap and make a killing when prices rise. The Kuala Lumpur market should be shut down, then trading would be much more transparent."

Sungei Lembing was originally developed by Cornish tin miners 100 years ago. The mine, stretching over an area of 4,000 acres, has 500 miles of workings and in some places shafts go down more than 2,000 feet.

> 'There's no sense in tin prices being so low. By any judgment, prices will have to start rising again.'

Only a very small portion of the mine is now being worked, but the echoes of more prosperous times still fill the area. The mine office is lined with musty books from the old Sungei Lembing club, once centre of activity for more than 100 expatriates. Pre-war British equipment, some of it still in use, is everywhere.

Supported by a loan from the Commonwealth Development Corporation, Mr Sia and a partner took over Sungei Lembing in 1989. The previous owners, a Malaysian concern, had gone into liquidation because the fall in tin prices following the collapse of International Tin Council's price support operation four years earlier. Mr Sia had to buy the old equipment back from the liquidator.

Mr Sia spends much of his time computerising the old records of the mine. "The British kept thorough recordings of geological structures for every six inches of tunnel advance," he said. "When I came here they were stacked ceiling-high: I now have a complete record of the workings from the turn of the century up to 1986. Only the war years, when the Japanese flooded the mine, are missing."

Sungei Lembing has more than 700,000 tonnes of proven and probable ore reserves, containing nearly 10,000 tonnes of recoverable metal. Mr Sia said the average grading was about 1.5 per cent, though some fairly extensive workings contained about 15 per cent.

"Last August I found a very rich deposit with 55 per cent grading," said Mr Sia. "With tin prices so low I don't want to mine this precious reserve. But obviously such rich deposits are easier to mine and give a far better return."

Substantial amounts of money have to be invested in the mine to shore up the tunnels and replace rusting railway tracks. To cover costs Mr Sia is contemplating using the mine's surface area to plant palm oil and other cash crops.

"Some people call me eccentric," admitted Mr Sia, "but I'm determined to keep Sungei Lembing open. If prices are still down at present levels in a few years time I might have to concede defeat. But if prices rise, I'll become a big player in the market. There are those who describe tin mining as a sunset industry. I say that the sunset is always followed by the sunrise."

Aluminium crashes to 8-year low

By Kenneth Gooding, Mining Correspondent

ALUMINIUM'S PRICE crashed through an important technical support level yesterday to end the day on the London Metal Exchange at its lowest point for eight years.

The fall triggered widespread selling on the LME, driving copper prices down to fresh six-year lows and taking zinc to near six-year lows, lead and nickel to near seven-year lows while tin was near its lowest point for 20 years.

Analysts suggested this reflected the fundamentally gloomy world economic situation, huge and rising stock levels and unrestrained exports from the former Soviet Union. No improvement could be expected until at least half-way through 1994, they said.

Three-month aluminium was $1,074.75 a tonne at the close on the LME, down $38.50, helped on its way by news that stocks in exchange warehouses had risen by another 3,625 tonnes to a record 2,260,175 tonnes. Analysts said the next technical support point was $1,050.

The price is now perilously near 45 cents a lb ($991 a tonne) which the Anthony Bird consultancy group recently described as "a disaster price" that would quickly force western producers to close another 2m tonnes of annual capacity on top of the 1.4m tonnes already temporarily shut down.

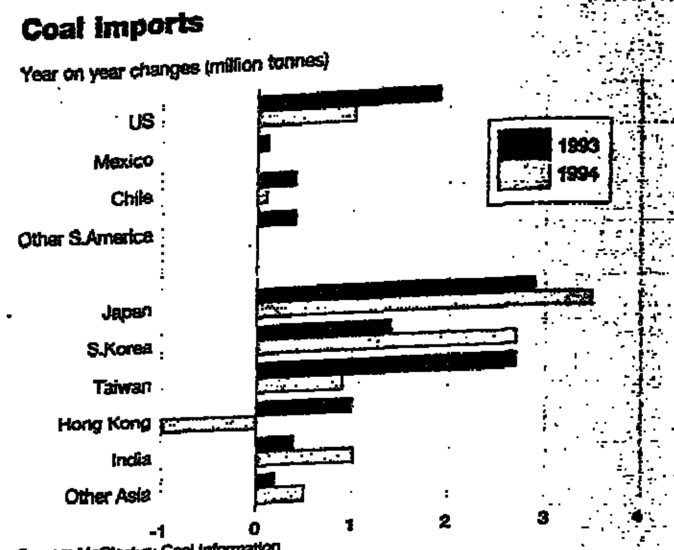
LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+3,625	to 2,260,175
Copper	+6,850	to 812,900
Lead	+875	to 289,000
Nickel	+516	to 118,620
Zinc	+4,400	to 827,400
Tin	+190	to 20,630

Unpropitious time chosen for British Coal's export drive

By Gerard McCloskey

Coal imports



Source: McCloskey Coal Information

BRITISH COAL is understandably pleased with itself this week as it begins to ship its biggest export order this year – for 100,000 tonnes of steam coal to a Danish electricity generator. But it could hardly have chosen a more difficult time to make a push into the European market.

Steam coal prices look set to fall once again for 1994 deliveries. Contracts are now being concluded between the South African producers and the Belgian utility Electrabel at prices $3 below last year's, giving a 1994 price at the South African export terminal of $27 a tonne. With ocean freight rates from Richards Bay to Rotterdam around $6.75, delivered prices into north-west Europe look unlikely to exceed £22 a tonne.

Although some of the power companies in Europe – the Netherlands' GKE for example – will be paying slightly higher prices for better quality coals, many will be seeking, and getting, deliveries at spot-related prices. Stadtwerke Bremen in Germany is believed to have settled first quarter 1994 business at $21 f.o.b. Richards Bay and the two Danish utilities, Elsam and SK Power, at below $20 from South Africa.

Outsiders, seeing a market where supplies are threatened by the US coal strike and the sudden rise of Russian rail freight rates to $20 a tonne (they were $2 a tonne two years ago), will find this weakness difficult to comprehend. But weak power demand in Europe and in Japan has resulted in poor purchase levels, particularly from companies that had been counted on to be big buyers – Electricite de France, Italy's ENEI, and the British power companies.

While ENEI has been cutting back its annual purchases from nearly 10m tonnes to about 2m tonnes this year, EDF, PowerGen and National Power have been transformed into companies selling on their imports rather than signing up for new business. Earlier this year EDF found itself in the embarrassing position of paying suppliers either to delay or cancel deliveries.

Although some expansion in purchases can be expected in Europe from GKE, from Electricidade de Portugal and from Morocco, 1994 looks likely to be as gloomy as 1993.

In contrast to Europe, the Asian market is undergoing a boom. Although a cool wet summer kept demand down and hydro supplies up in Japan, the sheer volume of new coal-fired power stations coming on to the grid bodes well for irresistible growth throughout the decade. Elsewhere in Asia – particularly this year in South Korea – demand for imports is mounting as much from new power stations as from, in southern India and on China's Pearl river, inadequate indigenous supply.

The price outlook in Asia should be very different from Europe's, with new demand not matched by the new supply. But the perversity of the settlement calendar puts the Japanese steel producers, like their European competitors all making losses, ahead of the power utilities, so weakening the steam coal exporters' prospects relative to those of their coking coal cousins. If they do have to take price cuts this year – and the weakness of the Australian dollar certainly makes cuts that much easier to accommodate – it will be doubly galling since export stocks have fallen throughout the year to reach a four-year low at the end of September.

However, the vigour of the Asian market will do little to improve the prospects for those who believe British Coal's redemption will be through a sustained export campaign. What pickings there will be over the next 12 months will be lean and cheap.

Researchers unlock secret of locust swarms

By Alison Maitland

SCIENTISTS IN Kenya have identified behaviour-modifying chemicals in desert locusts that could be used to prevent them from swarming and devastating crops in Africa and Asia.

Professor Thomas Odhiambo, director of the International Centre of Insect Physiology and Ecology in Nairobi, told a meeting at the House of Commons in London yesterday that research into preventing locust plagues was "moving in the right direction".

His team has isolated chemicals which make many locusts reach sexual maturity and lay their eggs within a very short time of each other. This brings large numbers together and leads to swarming and migration to crop-growing regions.

Prof Odhiambo said the research, which is costing $1.2m a year, could end the need for mass spraying of locust breeding grounds in semi-arid savannah where the insects serve an important role in recycling nutrients such as nitrogen.

"When you spray as you have been doing for years at the beginning of each outbreak, it's in very fragile environments. You're not asking permission from the pastoral communities and the insecticides end up in the camel milk which these people drink," he said.

If the research was successful, it could also overcome problems that arise from the misplaced generosity of international donors, he said.

Donated pesticide left over from previous locust plagues was now lying leaking in dumps in Morocco and Somalia. "These countries don't know how to deal with expired insecticides," he said. "There's no incinerator anywhere in Africa."

Prof Odhiambo said it was too early to specify how the chemicals would be used to prevent swarming and keep the locusts in their isolated, grasshopper state.

"In normal breeding grounds there are probably less than half a dozen locusts per hectare," he said. "From next year our concentration has to be in the field to understand how these chemicals are responsible for managing this behaviour. We think we've identified a small population in Namibia which has never swarmed and we need to understand why."

They also wanted to discover what made swarms of locusts break up and return to their isolated state.

The research is being funded by the United Nations Development Programme, the International Fund for Agricultural Development and the German and Swedish governments. The initial four-year programme ends in December next year and Prof Odhiambo thinks at least 10 years of fieldwork will be needed.

WEEKLY MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,560-1,625 (1,570-1,615).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.50 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.38-0.42 (0.39-0.44).

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 11.55-12.10 (11.60-12.15); 99.3 per cent, $ per lb, in warehouse, 10.65-11.20 (10.70-11.25).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 95-110 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.55-2.65 (2.52-2.62).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.45-5.25.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-37 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.30-1.45 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 6.90 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

The **GOLD** retreated from near the top of its recent trading range yesterday, but found support again above the $365-a-troy-ounce mark. Dealers said physical buyers and bargain-hunting investors were attracted by a fall towards $366, but the price still ended London trading with a net fall of $4.50 at $367.25 an ounce. Gold's performance undermine **SILVER** market sentiment and the junior precious metal closed in London at $4.36½ an ounce, down 9 cents. "Silver has run out of steam and some of its technical indicators have now turned slightly bearish," one trader commented. The aluminium market collapse (see story above) knocked the stuffing out of other base metals. **NICKEL** fell away, with London Metal Exchange stocks continuing to rise and the market in need of further production cuts. But **LEAD** seemed to find some modest support near $400 a tonne for three months delivery, and with fundamentals not as depressed as other metals, closed only marginally lower on the day. The London Commodity Exchange **COCOA** market failed to live up to early promise and the March futures position closed £2 down at £969 a tonne.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Dec)		+ or -
Dubai	$14.43-4.47	+0.060
Brent Blend (dated)	$15.86-5.90	-0.140
Brent Blend (Dec)	$16.26-6.32	-0.140
W.T.I (1 pm est)	$17.45-7.49u	-0.135
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$184-187	-2
Gas Oil	$168-169	
Heavy Fuel Oil	$61-63	
Naphtha	$154-157	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$367.25	-4.5
Silver (per troy oz)♣	436.5c	-9.0
Platinum (per troy oz)	$371.00	-5.35
Palladium (per troy oz)	$130.00	-1.10
Copper (US Producer)	84.5c	
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	11.90m	-0.53
Tin (New York)	220.0c	-9.0
Zinc (US Prime Western)	Unq	
Cattle (live weight)†	119.86p	+2.86*
Sheep (live weight)†♠	79.11p	-1.31*
Pigs (live weight)†	65.60p	+0.66*
London daily sugar (raw)	$264.3	-2.0
London daily sugar (white)	$295.0	
Tate and Lyle export price	£290.5	
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£120.0	
Wheat (US Dark Northern)	£166.5	
Rubber (Nov)♥	61.00p	-0.25
Rubber (Dec)♥	61.25p	-0.25
Rubber (KL RSS No 1 Jul)	204.5m	-0.5
Coconut oil (Philippines)§	$435.0v	-2.5
Palm Oil (Malaysian)§	$335.0u	-2.5
Copra (Philippines)§	$285.0	
Soyabeans (US)	£185.0w	-1.0
Cotton "A" index	54.35c	-0.05
Wooltops (64s Super)	337p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov v-Jan/Feb u-Dec t-Sep/Oct w-Nov/Dec ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

CRUDE OIL - IPE ($/barrel)

	Latest	Previous	High/Low	
Dec	16.29	16.37	16.49	16.25
Jan	16.50	16.58	16.70	16.46
Feb	16.66	16.77	16.85	16.66
Mar	16.80	16.85	16.96	16.80
Apr	16.88	16.95	17.07	16.88
May	17.00		17.10	17.00
Jun	17.08	17.14	17.18	17.08
Jul	17.16	17.19	17.20	17.16
Aug	17.22	17.32	17.36	17.22
IPE Index	16.62	16.88	16.62	

Turnover 29857 (36108)

GAS OIL - IPE ($/tonne)

	Close	Previous	High/Low	
Nov	164.50	166.00	166.00	164.50
Dec	164.50	165.00	166.00	164.50
Jan	164.50	165.00	165.75	164.25
Feb	164.25	164.50	165.00	163.75
Mar	163.25	163.50	163.75	163.00
Apr	162.25	162.50	162.50	161.75
May	161.00	161.50	161.00	160.75
Jun	160.00	160.50	160.50	159.50
Jul	161.00		161.00	

Turnover 18317 (20882) lots of 100 tonnes

SUGAR - LCE ($ per tonne)

White	Close	Previous	High/Low	
Dec	281.60	282.50	282.00	281.00
Mar	278.80	279.00	279.50	278.70
May	281.00	282.00	282.20	281.00
Aug	284.70		285.70	285.00

Turnover 1075 (482) Paris- White (FFr per tonne): Dec 1651.84 Mar 1646.87

JUTE
September/October c and f Dundee BTC $390, BWC $410, BTD $355, BWD $375; C and F Antwerp BTC $365, BWC $365, BTD $345, BWD $345.

COTTON
Liverpool- Spot and shipment sales amounted to 40 tonnes for the week ended 22 October, against none in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles,notably in the Syrian range.

No.7 RAW SUGAR - LCE (cents/lbs)

	Close	Previous	High/Low	
Mar	10.67	10.69	10.68	10.61
May	10.86		10.80	

Turnover 15 (20) lots of 50 tonnes.

COCOA - LCE (£/tonne)

	Close	Previous	High/Low	
Dec	937	942	952	936
Mar	969	971	985	969
May	971	975	991	971
Jul	971	975	987	971
Sep	972	978	987	977
Dec	954	957	963	953
Mar	853	955	968	954
May	956		969	958
Jul	954		972	972
Sep	956		976	965

Turnover: 7103 (2117)lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 25 930.95 (921.13) 10 day average for Oct 26 915.49 (912.72)

COFFEE - LCE ($/tonne)

	Close	Previous	High/Low	
Nov	1155	1178	1175	1150
Jan	1176	1197	1197	1171
Mar	1171	1179	1185	1165
May	1165	1174	1180	1163
Sep	1165	1170	1179	

Turnover: 4869 (2566) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 25 Comp. daily 67.75 (69.18) 15 day average 67.63 (67.57)

POTATOES - LCE (£/tonne)

	Close	Previous	High/Low	
Apr	87.8	87.3	88.0	87.0
May	103.8	103.0	103.0	102.5

Turnover 59 (101) lots of 20 tonnes.

FREIGHT - LCE ($10/index point)

	Close	Previous	High/Low	
Oct	1325	1322	1332	1318
Nov	1300	1285	1295	1270
Dec	1300	1292	1275	
Jan	1307	1315	1310	1285
Apr	1335	1340	1335	1320
BFI	1331	1331	1331	

Turnover 349 (133)

GRAINS - LCE (£/tonne)

Wheat	Close	Previous	High/Low	
Nov	97.70	97.90	97.85	97.65
Jan	99.85	100.15	99.80	99.80
Mar	101.75	102.10	101.80	101.55
May	103.55	103.85	103.50	103.35
Sep	92.50		92.00	92.00
Nov	93.50		93.50	93.50
Barley	**Close**	**Previous**	**High/Low**	
Nov	100.15	100.75	100.00	
Jan	102.40	102.90	102.40	
Mar	104.50		104.50	

Turnover: Wheat 332 (168) Barley 61 (0)
Turnover lots of 100 Tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 57,883 lots
Cash	1053-3.5	1091-2		1055.5-6.5		
3 months	1074.5-5.0	1113-3.5	1111/1068	1077-8	1068-9	231,650
Copper, Grade A ($ per tonne)						Total daily turnover 40,587 lots
Cash	1596-7	1623-45	1604	1604-4.5		
3 months	1619-20	1646.5-7.0	1645/1613	1627-7.5	1618-9	188,823 lots
Lead ($ per tonne)						Total daily turnover 4,321 lots
Cash	393.5-4.5	398.5-400.5		390-1		
3 months	407-8	412-4	408/403	404-4.5	407.5-8.0	23,706 lots
Nickel ($ per tonne)						Total daily turnover 8,887 lots
Cash	4485-75	4568-73		4455-60		
3 months	4525-30	4625-30	4590/4500	4513-5	4530-40	44,354 lots
Tin ($ per tonne)						Total daily turnover 4,824 lots
Cash	4625-35	4745-55		4700-10		
3 months	4670-80	4795-800	4750/4660	4750-5	4690-700	13,506 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 20,247 lots
Cash	910-1	930-1	910	910-1		
3 months	927-8	947-8	943/924	926-6.5	923-4	85,045 lots

LME Closing £/$ rate: SPOT: 1.4800 3 months: 1.4717 6 months: 1.4665 9 months: 1.4600

LME AM Official £/$ spot rate 1.4768

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	367.00-367.50	
Opening	367.80-368.20	
Morning fix	368.50	248.902
Afternoon fix	368.25	248.261
Day's high	368.70-369.00	
Day's low	367.00-367.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.70	6 months	2.66
2 months	2.70	12 months	2.66
3 months	2.67		

Silver fix	p/troy oz	US cts equiv
Spot	297.60	439.25
3 months	301.60	442.60
6 months	305.25	446.00
12 months	312.70	453.70

GOLD COINS

	$ price	£ equivalent
Krugerrand	371.00-374.00	250.00-253.00
Maple leaf	379.10-381.50	-
New Sovereign	87.00-90.00	58.00-61.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1025	40	65	4	10
1050	22	48	11	17
1075	10	34	24	27
Copper (Grade A)	**Calls**		**Puts**	
1600	51	87	16	30
1650	38	72	25	39
1700	24	58	37	51
Coffee LCE	**Jan**	**Mar**	**Jan**	**Mar**
1100	107	128	31	57
1150	77	101	51	80
1200	53	79	77	108
Cocoa LCE	**Dec**	**Mar**	**Dec**	**Mar**
925	37	86	39	42
950	26	72	55	53
975	17	59	74	65
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
1650	22		30	47
1700	7		72	
1750	2	20		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	369.2	369.4	369.5	368.6
Nov	369.6	369.8	0	0
Dec	370.3	370.5	370.5	367.8
Feb	372.1	372.3	372.3	369.7
Apr	373.9	374.1	373.7	371.8
Jun	375.7	375.9	375.0	374.7
Aug	377.4	377.6	0	0
Oct	379.2	379.4	0	0
Dec	381.0	381.2	380.9	380.3

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	371.2	372.7	0	0
Nov	363.0	363.0	0	0
Jan	373.9	375.4	374.9	372.0
Apr	375.7	377.4	376.5	374.5
Jul	376.7	378.4	376.6	376.0
Oct	378.2	379.9	379.0	378.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	438.2	440.4	0	0
Nov	439.3	441.5	0	0
Dec	439.5	441.7	441.5	436.0
Jan	440.7	442.9	443.0	443.0
Mar	443.6	446.0	445.5	440.0
May	446.8	449.0	448.5	446.0
Jul	449.7	451.8	451.0	450.0
Sep	452.5	454.6	0	0
Dec	457.0	459.0	458.0	457.0
Jan	458.1	460.1	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	72.10	72.65	72.15	72.10
Nov	72.30	72.75	72.20	71.90
Dec	72.60	73.10	72.65	72.00
Jan	72.85	73.35	72.65	72.55
Feb	73.15	73.65	73.10	73.10
Mar	73.45	73.95	73.55	73.00
Apr	73.70	74.20	0	0
May	74.00	74.45	74.00	73.60
Jun	74.30	74.70	0	0
Jul	74.65	75.00	74.80	74.20

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Dec	17.44	17.51	17.70	17.41
Jan	17.64	17.71	17.87	17.60
Feb	17.80	17.89	18.03	17.80
Mar	17.96	18.04	18.14	17.95
Apr	18.11	18.17	18.23	18.06
May	18.20	18.30	18.35	18.23
Jun	18.30	18.41	18.45	18.30
Jul	18.52	18.50	18.53	18.43
Aug	18.52	18.59	18.63	18.52
Sep	18.60	18.66	18.68	18.60

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	52.20	52.31	52.90	52.10
Dec	52.95	53.06	53.70	52.75
Jan	53.55	53.71	54.15	53.45
Feb	53.70	53.96	54.25	53.70
Mar	53.20	53.46	53.85	53.20
Apr	52.40	52.36	52.75	52.40
May	51.70	51.86	51.90	51.70
Jun	51.35	51.21	51.60	51.35
Jul	51.60	51.41	51.70	51.40
Aug	52.40	51.96	52.40	52.40

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1129	1143	1157	1122
Mar	1170	1180	1194	1162
May	1185	1198	1207	1177
Jul	1195	1208	1219	1190
Sep	1212	1225	1234	1212
Dec	1228	1238	0	0
Mar	1234	1244	0	0
May	1254	1256	0	0
Jul	1268	1270	0	0
Sep	1287	1289	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	74.70	74.25	75.85	72.80
Mar	77.30	76.85	78.50	75.75
May	78.80	78.30	79.80	77.90
Jul	80.20	79.85	80.20	80.20
Sep	81.60	81.00	82.50	81.00
Dec	83.80	83.30	0	0
Mar	86.40	86.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	10.47	10.46	10.53	10.41
May	10.64	10.63	10.69	10.59
Jul	10.69	10.69	10.70	10.64
Oct	10.66	10.68	10.69	10.64

COTTON 50,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	57.38	57.23	57.74	57.28
Mar	59.27	59.03	59.55	59.20
May	60.20	59.93	60.40	60.15
Jul	60.90	60.60	61.00	60.90
Oct	61.60	61.82	0	0
Dec	61.92	61.85	62.05	61.85
Mar	62.75	62.55	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	112.30	114.00	114.60	112.10
Jan	115.25	117.00	117.50	115.00
Mar	117.50	119.00	119.50	117.50
May	119.10	120.50	120.50	120.00
Jul	120.60	122.00	121.25	120.00
Sep	121.40	122.75	0	0
Nov	119.10	120.50	0	0
Jan	119.10	120.50	0	0
Mar	119.10	120.50	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

Oct 26	Oct 25	mnth ago	yr ago
1585.5	1587.8	1587.0	1647.1

DOW JONES (Base: Dec. 31 1974 = 100)

	Oct 25	Oct 22	mnth ago	yr ago
Spot	119.22	120.04	121.88	112.92
Futures	130.28	129.85	125.68	114.93

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	620/2	623/2	624/4	618/4
Jan	628/4	630/6	632/4	627/0
Mar	636/4	638/0	639/4	634/2
May	639/0	641/6	643/0	637/4
Jul	642/6	645/0	647/0	641/4
Aug	642/0	644/4	645/0	641/0
Sep	631/0	632/2	634/4	631/0
Nov	624/0	624/6	626/4	622/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	23.10	23.10	23.32	22.97
Jan	23.19	23.17	23.38	23.05
Mar	23.37	23.35	23.54	23.22
May	23.40	23.38	23.56	23.29
Jul	23.40	23.38	23.60	23.30
Aug	23.20	23.18	23.40	23.18
Sep	22.98	23.00	0	0
Oct	22.65	22.65	22.85	22.65

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	192.6	193.9	193.9	192.5
Jan	192.9	193.9	194.0	192.8
Mar	194.0	195.3	195.1	194.0
May	194.8	196.2	196.1	194.8
Jul	196.3	198.1	197.7	196.3
Aug	196.5	198.2	197.7	196.5
Sep	196.5	197.8	197.0	196.5
Oct	196.3	198.0	197.0	196.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	256/0	258/4	257/4	254/0
Mar	264/0	264/4	265/2	262/0
May	267/6	268/4	269/0	266/0
Jul	268/6	268/4	270/4	267/2
Sep	260/0	260/4	261/4	259/2
Dec	252/4	252/4	253/4	251/0
Mar	259/2	259/4	0	0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	331/0	336/2	336/0	330/4
Mar	329/2	333/0	333/0	328/4
May	318/6	320/4	320/4	318/0
Jul	311/4	312/2	312/4	310/4
Sep	314/6	315/2	315/0	313/6
Dec	322/6	323/0	323/0	321/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	73.825	74.450	74.550	73.800
Feb	74.500	74.575	74.850	74.400
Apr	75.975	75.375	76.150	75.900
Jun	72.950	72.950	73.150	72.875
Aug	71.500	71.400	71.800	71.500
Oct	71.825	71.675	72.125	71.800
Dec	72.250	0	0	0

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	47.975	48.175	48.500	47.825
Feb	48.825	49.000	49.325	48.700
Apr	47.275	47.375	47.500	47.125
Jun	51.450	51.550	51.800	51.400
Jul	50.575	50.525	50.850	50.550
Aug	49.350	49.350	49.500	49.300
Oct	45.400	45.500	45.450	45.250
Dec	45.600	0	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	57.300	57.775	58.550	56.850
Mar	57.400	57.775	58.500	56.800
May	57.500	58.075	58.600	57.300
Jul	58.800	59.175	59.100	58.100
Aug	58.100	58.375	58.100	57.750

LONDON STOCK EXCHANGE

Big US selling bruises equity market

By Steve Thompson

A PROMISING early performance by UK share prices, triggered largely by Wall Street's move to a record closing high overnight, was dismantled from mid-morning onwards by a very disappointing quarterly survey published by the Confederation of British Industry and some bad news on the US economy.

The equity market, now showing distinct signs that its upsurge this month could have run out of steam, came under heavy fire from some of the big and influential US investment banks and stockbrokers. It was a sudden burst of heavy buying interest from these same US sources that triggered the big upward move in the UK stock market, during late August and in the middle of this month.

One senior trader said: "There was a big hit on the market this morning when some of the Americans offered large chunks of the Footsie future, which dropped sharply to a level where the arbitrageurs moved in. Rather ominously no-one around the market was happy to take the offers, and the market tone deteriorated from then on." He added that he still felt comfortable with the market but that he saw little upside for the next few days.

The FT-SE 100 Index began the session in good form, reflecting Wall Street's move on Monday to an all-time peak, and showed a near nine-point gain during the morning and before the news from the Confederation of British Industry survey was published.

The CBI quarterly survey was every bit as gloomy as some market observers had feared, saying that the economic recovery had slowed and calling for a reduction in domestic interest rates in the November 30 Budget.

This news, coupled with a very disappointing index of US consumer confidence this month, drove the FT-SE 100 down to the day's low point of 3,164.8, a fall of exactly 20 points, before it stabilised to close a disappointing session 19.5 down at 3,165.3.

Market strategists were also disturbed by the US consumer confidence index performance, which at 59.4 per cent, was well below general expectations that were in the region of 63 per cent.

A number of UK commentators expressed concern about the equity market's recent performance. "I would like to think the market peaked at Footsie 3,199," said Mr Robin Aspinall at Panmure Gordon.

The strategy team at NatWest Securities, in their latest Equity Market Commentary, pointed to "a deluge of profits downgrades so far this month – five upgrades compared with 18 downgrades – an uninspiring results season and a couple of disappointing inflation figures". BZW said: "After the FT-SE 100's surge towards the 3,200 mark, the simple price/earnings and yield valuations begin to make the eyes water."

And dealers also expressed minor disappointment with the volume of business transacted so far this week. Turnover yesterday of 589.5m shares, although well up from Monday's dismal 482.6m, was well below recent levels which have held at well above 600m per day for the past two weeks. Customer business on Monday was valued at £1.17bn, also the lowest figure for two weeks.

The telecoms sector, roughly handled last week as one of the leading UK brokers adopted a more cautious stance, put on a good showing in the wake of some determined US buying.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	6,700	65¼	-½
Abbey National†	943	413	-4
Albert Fisher	3,400	75	-1
Allied-Lyons†	2,300	591	-7
Anglian Water†	1,500	543	-7
Argos	394	355	+2
Argyll Group†	3,700	309	+2½
Arjo Wiggins†	1,300	229	
Assoc. Brit. Foods†	557	494	+3
Ass. Brit. Ports	259	502	+2
BAA†	1,000	971	-12
BAT Inds.†	3,100	488	-7
BET	4,300	130	+1½
BICC	672	394	+3
BOC†	1,400	761	+2
BP†	3,400	337	-2½
BPB Inds.	2,000	286	+3
BT†	4,300	461½	
BT (Pt Pd)	2,600	211½	
BTR†	4,800	369	-5
Bank of Scotland†	857	189	-4
Barclays†	2,500	558	-9
Bass†	614	496	-5
Blue Circle†	2,700	294	-4
Booker	162	389	
Boots†	1,322	516	-2
Bowater†	785	441	-7
Brit. Aerospace†	351	412	+2
British Airways†	4,000	375	-3
British Gas†	7,900	340	-7
British Land	381	411	-2
British Steel†	8,000	128½	+1
Bunzl	239	144	
Burmah Castrol†	101	772	-1
Burton	3,800	78¾	-2
Cable & Wire.†	1,800	958	+15
Cadbury Schweppes†	1,300	481	-7
Calor Group	78	287	+5
Carlton Comms.†	77	765	-2
Coats Viyella†	1,000	277	-2
Comm. Union†	1,000	641	-6
Cookson	485	206	
Courtaulds†	1,800	493	-6

[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Lasmo finance chief quits

ALL EYES will be on the performance of Lasmo today after confirmation came late in trading yesterday that finance chief Mr Michael Pavia is to resign at the end of this week.

Last week Lasmo repeatedly denied any imminent boardroom changes. The departure has been widely tipped in the market, with speculation gathering momentum over the past few days. One market watcher believes that more boardroom moves could be on the way. "It is an overweight board at the moment," he said, adding that the company is likely to pause a while for the City to digest the consequences of Mr Pavia's leaving.

The finance chief's departure is by far the most important change that the City was expecting. "He has paid the price for Ultramar," said one analyst. Sentiment surrounding Lasmo plunged after its acquisition of rival oil company Ultramar early last year.

Takeover interest in Lasmo, on which there has been steady speculation since British Gas's unsuccessful attempt several years ago, may be heightened by Mr Pavia's resignation. Potential bidders may see the departure as a willingness on the part of Lasmo to take on new ideas. European companies, as opposed to UK-based ones, are expected to show the most interest.

Upbeat oil analysts believe the shares will bounce today as Lasmo has cleared the air of the persistent market rumours. "It will mark a turning point," said one. Yesterday the shares held unchanged at 145p in modest turnover of 2.2m, although the announcement came in the last half-hour of trading.

Others believe the market had already factored Mr Pavia's departure into the share price, although they think there will be a short-term boost on the news. "We may see US buyers becoming excited." US interests are thought to account for over 20 per cent of Lasmo shares.

Early speculation on a successor to Mr Pavia again focused on Mr John Walmsley, former finance director of Enterprise Oil who left the company earlier this year.

Ferranti tumbles

The announcement that troubled defence electronics group Ferranti International was in talks that might lead to a bid for it at one pence a share saw the stock undergo a dramatic 73 per cent slump amid record turnover.

Although the mid-afternoon news had long been mooted in the market, it nevertheless took dealers by surprise and the group immediately dived 6¾ to 2½p, as volume soared to a hefty 38.9m.

The company did not disclose its likely bidder but many in the market pointed the finger at defence electronics group GEC, with one market watcher saying: "GEC is the most obvious candidate for a rescue. There is no doubt that a rescue is what it would be. We shall now wait to see what can be salvaged from this sorry tale."

There was also a feeling in some quarters that the UK government may be playing a part in brokering an agreement between Ferranti and its suitor. Other candidates mentioned included French defence electronics group Thomson CSF. GEC shed a penny to 341p in trading of 4.9m.

Thames Water slides

The shock £25m provision announced by Thames Water with its figures yesterday was the signal for hefty profit-taking throughout the water sector. Shares in Thames were inevitably the worst hit, closing 13 down at 561p in high turnover of 5m. Elsewhere, Severn Trent slipped 8 to 555p, South West 10 to 602p, Southern 11 to 600p and Yorkshire 12 to 578p.

Yield considerations have sent the water sector soaring in the two months, the index of shares jumping nearly 15 per cent since the beginning of August. Mr Bill Dale at SG Warburg said: "The sector has risen so far so fast and was vulnerable to a short-term setback, which the Thames provision duly provided. However, we believe Thames remains a core holding in the sector reflecting the strength of its efficient underlying business."

The Thames provision, which was taken against two overseas contracts, also reignited worries over diversification by water companies away from their core business areas. These concerns added to impending regulatory anxieties in the UK led to some limited switching into the electricity stocks. The sector also saw further heavy business in the generators. Among the steepest rises, Yorkshire advanced 8 to 641p, Eastern 7 to 614p and Manweb 8 to 658p. Turnover in Scottish Power hit 8.1m, the shares adding 3 to 416p.

Salomon Brothers chose a basket of Recs (regional electricity companies) yesterday to launch a covered warrant in the equity market. The warrant allows investors to buy an option – in this case £1.50 – which they can then excercise at any time over the next 49 weeks and buying the underlying shares of the Recs at the price at the date of the warrant's purchase. Yesterday, the strike price was £26.00. The issue coincides with Salomon's reiterating its positive stance on the Recs.

The fall in the oil price hampered most stocks in the sector. BP lost 2¼ to 337p in moderate turnover. Enterprise Oil gave up 5 to 476p. Against this trend was Shell which firmed a penny to 709p, with one analyst pinning some reason to good results by Exxon.

A variety of factors conspired to bruise a recently bouncy drugs sector. SmithKline Beecham "A" fell back 11 to 429p in volume of 2.4m as confirmation came that Mylan Laboratories, of the US, had won approval to market the generic form of SmithKline's Tagamet. US patents on Tagamet expire in May. Some downgradings were expected on the back of the move. Panmure Gordon added to the stock's problems by switching its position from sell to hold, saying that others in the sector appeared better value.

Glaxo was hit by Morgan Stanley moving from a "hold" to a "sell", retreating 23 to 691p. Some drugs analysts feel that Glaxo has risen too high in the recent pharmaceuticals rally and that past £7 the shares seem overvalued.

Nervousness ahead of results – due tomorrow – again hounded Wellcome and it gave up 22 to 812p.

In the slight backlash in drugs, Cantab was said by one analyst to have made a somewhat lacklustre debut on the market. It began trading at 465p, after being placed at 460p, rose to a high of 473p and trailed off to close at 468p.

US support, particularly in the ADRs, was said to have lifted Cable and Wireless, up 15 at 958p and Vodafone, ahead 7 at 561p.

Among financials yield buyers were seen early in the day in Lloyds, though having advanced to 574p, the shares followed the market lower to close unchanged at 568p.

Vague bid talk was once again heard in TSB where the shares edged half-a penny forward to 220p. Abbey National eased 4 to 413p, with the market with active dealing in the traded options reported.

S.G. Warburg was reported to be a buyer of Prudential Corp, up a penny at 371p.

Food manufacturing stocks witnessed a mixed session as the recent directionless trading continued to defy broker recommendations. Ahead of the impending results season, Kleinwort Benson was one house believing the sector's recent underperformance overdone and advising clients to go "overweight".

Turnover in motors group BBA rose to 15.3m, making it one of the day's most actively traded stocks, as the company continued to bask in the glow of Monday's appointment of a former BTR director as its new chief executive.

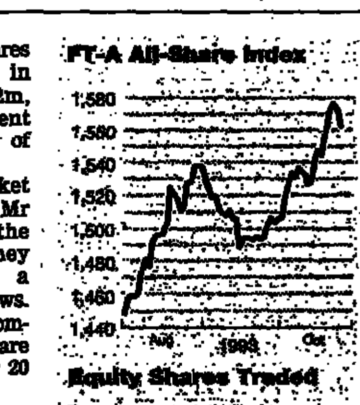
BBA shares jumped 12 to 179p, with sentiment further boosted by a strong recommendation from NatWest Securities. BTR followed the poor market trend, ending 5 off at 369p after volume of 4.8m.

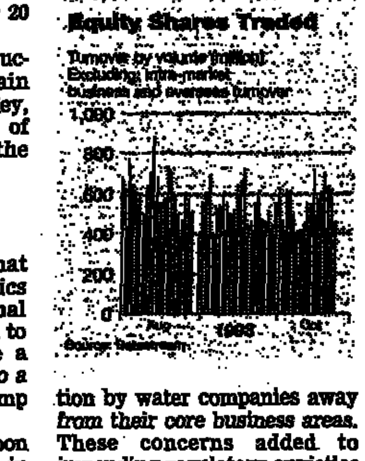
Rolls-Royce shed 2¼ to 153p after Panmure Gordon advised investors to sell the stock. In its 46-page 'Engineering Quarterly' review on the engineering and aerospace sector, the broker said of Rolls: "There is no recovery in sight."

Agency broker James Capel was said to have moved from a hold to a sell on Allied-Lyons, which retreated 7 to 591p.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price,
Christine Buckley.

■ Other statistics, Page 20





Account Dealing Dates

*First Dealings:		
Oct 18	Nov 1	Nov 15
Option Declarations:		
Oct 28	Nov 11	Nov 25
Last Dealings:		
Oct 29	Nov 12	Nov 26
Account Day:		
Nov 8	Nov 22	Dec 6

*New time dealings may take place from two business days earlier.

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (162). BRITISH FUNDS (1) Exch. 12pc 2013-17, AMERICANS (5) Chrysler, Dana, Eaton, Echlin, Lockheed, BANKS (4) ABN Amro, Banco Santander, Standard Chartered, Westpac, BREWERS (2) Greene King, Wetherspoon (JD), BLDG MATLS (6) BMSS, CRH, Kingspan, Sharpe & Fisher, Travis Perkins, BUSINESS SERVS (1) Serco, CHEMS (2) European Colour, Yorkshire Chems, CONGLOMERATES (3) AGA, Fletcher Challenge, ELECTRICALS (3) Electrolux, Philips, Thorpe, ELECTRICITY (14) East Midlands, Eastern, London, Manweb, Midlands, National Power, Northern, Norweb, PowerGen, Scott. Power, Seeboard, South Wales, South Western, Yorkshire, ELECTRONICS (3) Druck, Electron House, Logica, ENG AERO (1) Smiths Inds., ENG GEN (5) Dobson Park, FKI, Mining & Allied Supplies, FOOD MANUF (2) AWS, A. Kalozi, FOOD RETAILING (1) Park Food, HEALTH & HSEHOLD (2) Community Hospitals, UniChem, HOTELS & LEIS (1) Aberdeen Steak Houses, INSCE COMPOSITE (1) FAI, INV TRUSTS (50) MEDIA (6) Flextech, Metal Bulletin, Pearson, Reed Intl., Reuters, Wassoughs, MERCHANT BANKS (1) Wintrust, MISC (1) Birkby, MOTORS (1) Kwik-Fit, OIL & GAS (6) Aminex, Dana, Shell Trans., Do. Pf., Woodside, OTHER FINCL (4) Baltic Pf, Gowett & Co., Hambros Ins, Oceans, OTHER INDLS (1) Brunicliffe Agg., PROP (13) Bilton, Bradford, Chesterfield, Do. 5½pc Pf, Daejan, Derwent Valley, Frogmore Estates, Helical Bar, Do. 5¼pc Pf, Land Securities, Merivale Moore, Shaftesbury, Warner Est., STORES (8) Argos, Asprey, Austin Reed, Coles Myer, Courts, Moss Bros, TELE NETWORKS (3) GN Gt. Nordic, Securicor A, Security Services, TEXTS (9) Coats Viyella, Dewhirst, Honeysuckle, Magellan, Sherl, Shiloh, Wensum, Yorklyde, TRANSPORT (4) Assoc. Brit. Ports, Irish Continental, Powell Duffryn, Seacon, WATER (1) Welsh, PLANTATIONS (2) Bertam, Rowe Evans, MINES (3) Nevan Res., OFS, Welkom.

NEW LOWS (12). BLDG MATLS (2) Explaura, Tudor, BUSINESS SERVS (1) Inchcape, CHEMS (1) Caird, Do. Pf., ELECTRICALS (1) Sumfield, ELECTRONICS (1) Ferranti, FOOD RETAILING (1) Low (Wm), INV TRUSTS (1) Dunedin Japan, MISC (2) Beckenham, Delaney, PROP (1) Embassy, STORES (1) Hampden.

FINANCIAL TIMES EQUITY INDICES

	Oct 26	Oct 25	Oct 22	Oct 21	Oct 20	Year ago	* High	* Low
Ordinary share	2381.5	2395.9	2409.5	2397.9	2379.2	1979.5	2414.2	2124.7
Ord. div. yield	3.89	3.87	3.85	3.87	3.91	4.59	4.52	3.82
Earning yld % full	4.51	4.49	4.47	4.49	4.53	8.58	8.38	4.47
P/E ratio net	27.98	28.08	28.20	28.05	27.80	19.36	28.30	19.40
P/E ratio nil	25.78	25.88	26.00	25.86	25.64	18.00	26.14	18.14
Gold Mines	218.8	220.1	221.0	227.8	224.7	74.7	249.2	80.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83 - low 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2402.2	2402.5	2404.3	2400.1	2397.2	2390.2	2384.1	2385.4	2381.9	2405.1	2381.2

Volume	Oct 26	Oct 25	Oct 22	Oct 21	Oct 20	Year ago
SEAQ Bargains	29,099	32,442	34,422	32,356	32,269	23,403
Equity Turnover(£m)†	-	1173.3	1845.1	1757.8	1501.6	1036.0
Equity Bargains†	-	36,886	39,521	36,717	38,551	28,168
Shares traded (mil)†	-	465.3	618.6	645.0	705.1	472.3

† Excluding intra-market business and overseas turnover.

London report and latest Share index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3165.3 -19.5	3545.0 -2.0	1564.92 -7.18

Detailed sector index figures, hourly movements and FT-SE Actuaries 350 Industry Baskets: [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
Treas 13¼pc 1993‡‡	100½xd	—	100¼	100⅜	13.57	
8½pc 1994	100⅝	—	102½	100⅝	8.43	
14½pc 1994‡‡	103⅛	—	109¼	105¼	14.65	
Exch 13¼pc 1994	104¼xd	—	109⅛	104½	12.97	
Treas 10pc Ln 1994‡‡	102⅞	—	105⅝	102⅞	9.72	
Exch 12½pc 1994	105⅜	—	110⅜	105⅜	11.81	
Treas 9pc 1994‡‡	103⅞xd	—	106⅜	103⅝	8.65	
12pc 1995	107⅝	+⅛	111⅝	107⅝	11.12	
Exch 3pc Gas 90-95	97¼xd	—	97¼	94	3.07	
10¼pc 1995	107⅞	—	109⅝	107⅛	9.49	
Treas 12¾pc 1995‡‡	114xd	—	118¼	113½	11.19	
14pc 1996	117⅜	—	120⅝	117⅛	11.92	
15¼pc 1996‡‡	122¼xd	—	125⅜	121⅝	12.49	
Exch 13¼pc 1996‡‡	117⅛xd	—	120¼	115¼	11.33	
Conversion 10pc 1996	111⅝xd	—	112⅜	106⅞	8.95	
Treas 13¼pc 1997‡‡	121¼	—	122⅜	116⅝	10.93	
Exch 10½pc 1997	113⅛	—	114⅛	110⅛	9.24	
Treas 8¾pc 1997‡‡	108⅛	—	108⅝	105⅛	7.99	
Exch 15pc 1997	130⅞xd	—	132⅜	127⅞	11.46	
9¾pc 1998	113¼	+⅛	113⅜	109⅛	8.61	
Treas 7¼pc 1998‡‡	104⅜	+⅛	104⅜	99⅜	6.93	
7¼pc 1998 B‡‡	104⅜	+⅛	104⅜	101⅜	6.94	
Treas 6¾pc 1995-98‡‡	101¾xd	—	101⅞	97⅞	6.64	
14pc '96-1	129⅜xd	+⅛	129⅝	125⅛	10.89	6.43
Five to Fifteen Years						
Treas 15½pc '98‡‡	139⅜	+⅛	139⅝	133⅜	11.29	6.31
Exch 12pc 1998	122¾xd	+⅛	124¼	118⅞	9.80	6.41
Treas 9½pc 1999‡‡	113⅞	+⅛	114⅛	109⅛	8.34	6.33
Exch 12¼pc 1999	126	+⅛	126⅞	120⅜	9.72	6.46
Treas 10½pc 1999	118⅞xd	+⅛	119⅛	112⅜	8.83	6.42
Conversion 10¼pc 1999	118⅜xd	—	119⅛	112⅛	8.68	6.47
9pc 2000‡‡	113⅞	+⅛	113⅞	108	7.94	6.47
Treas 13pc 2000	139⅛	+⅛	139⅞	125⅛	9.73	6.70
10pc 2001	118⅜	—	118⅜	109⅛	8.41	6.68
7pc '01 ‡‡	103⅛	—	103⅞	97⅞	6.89	6.55
9¾pc 2002	118⅛	+⅛	118⅜	108⅛	8.38	6.83
8pc 2003‡‡	108⅝	+⅛	108⅝	97⅞	7.36	6.75
8pc 2003 A‡‡	108⅜	+⅛	108⅜	102⅛	7.36	6.75

BRITISH FUNDS - Cont. / OTHER FIXED INTEREST

[illegible]

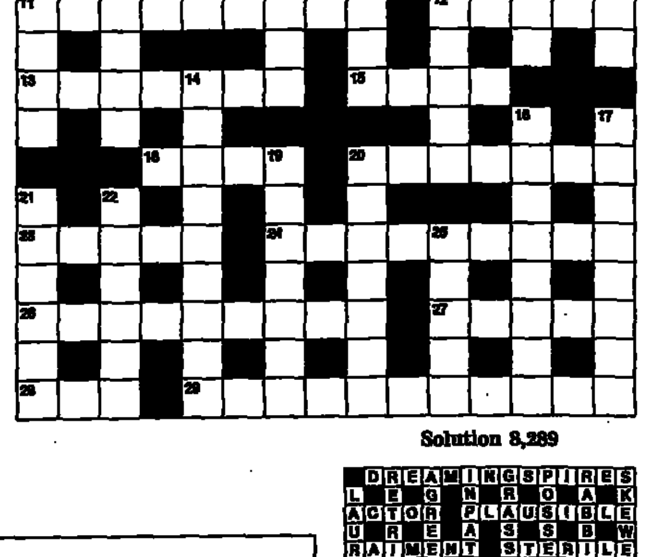
Continued on next page

CROSSWORD

No.8,290 Set by ADAMANT

ACROSS
1 Song of well directed pair (4,3,4)
7 Street without a bar (3)
9 No contents to spoil at this dwelling (5)
10 A light covering (9)
11 She is active in the current situation (9)
12 Lose one's breath in the main (5)
13 Commendations come in a variety of ways (7)
15 Corrodes part of the engine at Silverstone (4)
18 Village ladies find the premier comes over as an ineffectual person (4)
20 Article on developing a rash in the desert (7)
23 Classic place for timeless predator (5)
24 Determine the position of nothing, nothing in French gallery (9)
26 Understanding harmony (9)
27 Moist new leaves out (5)
28 One falling in a river should get warm and dry (3)
29 Others sent in after board game (5,6)

DOWN
1 Celebration requires a mere job of organisation (8)
2 Undertaking to kill off the treaty (8)
3 Flight from war or disaster (5)
4 Turn the cover on the novel? That's a tricky question (7)
5 Great people in semi misery (7)
6 The French way to abandon the final defence (4,5)
7 One of the explanations that are working on the issue (6)
8 Third party insurance owed on Ann's accident (6)
14 Mother in these predicaments needs a rope (9)
16 Making a model dress (8)
17 Another scene set in unbridled sin causes angry reaction (8)
19 Saying oil company should come up with car contents (7)
20 Comic item let off with a pin (7)
21 A student lifted a topping piece of material (6)
22 One who records twenty runs (6)
25 It keeps you in suspense (5)



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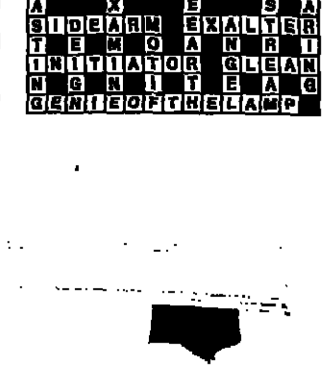

JOTTER PAD

EQUITY FUTURES AND OPTIONS TRADING

LARGE-SCALE US selling of Footsie futures left the December contract floundering with few friends in the market, writes Christine Buckley.

With sentiment knocked by the CBI survey on industrial trends, the flickering hope of an early interest rate cut proved too weak to give much support to the contract.

Having been recently driven upwards by the inflow of US money, American selling cut off an important lifeline.

The downward drift began after the contract had mustered a climb from its opening at 3,182 to its day's high of 3,218. Then, after publication of the CBI's findings December was at the mercy of the strong selling.

Some institutions were buyers though in insufficient numbers to provide a lift as the heavy US off-loading ran in tandem with intensive selling by independent traders.

A poor opening on Wall Street consolidated gloomy sentiment in the market although December traded ahead of its fair value premium for most of the session. However, its closing level of 3,180 was just on a par with the fair value premium to the cash market which stands at about 15 points.

Action was moderate in traded options and volume reached 30,053 lots with a fairly even balance between index and stock options. The most dealt stock option was British Gas at 2,224 lots with the FT-SE 100 option at 3,090.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		18⅞xd	+⅛	20¼	16⅝	18,744	2.4
Allegheny & W	♥	823p	-56	722p	398p	288.6	3.8
Amdahl		328p	+6	891p	284p	389.5	1.0
Amer Cyanamid		36¼	+⅛	39	31⅛	3,302	3.2
Amer Express		22⅞xd	-⅛	25⅞	14⅞	11,038	2.9
Amer T & T		38¼xd	+⅛	43¼	33¼	52,724	2.2
AmerItech		58½	+⅛	58¼	45	24,737	4.4
Anheuser-Busch		32¼	-⅛	41¼	29⅛	8,924	3.0
BankAmerica		29⅛xd	-⅛	38⅛	27⅛	16,354	3.2
Bankers NY		54xd	+⅛	54¾	42⅞	4,467	3.8
Bell Atlantic		41⅝	-⅛	44¾	32¼	18,095	4.3
BellSouth		41⅞	+⅛	41⅞	32⅞	20,439	4.5
Bethlehem Steel	♥	11⅛xd	-¼	13¾	8½	1,001	-
Bowater		1258pxd	-34	1682p	1189p	455.8	3.2
CPC		32¼xd	—	34⅞	26	4,932	2.7
California Engy		1168p	—	1479p	1085p	212.3	-
Chase Manhattan		23¼xd	-⅛	24⅞	17⅞	3,648	3.5
Chrysler		36⅛xd	+⅛	36⅞	21⅛	10,670	1.1
Citicorp		24⅛xd	-⅛	28	13⅛	8,887	-
Colgate-Palm		39⅛xd	+1⅛	45⅞	32	6,326	2.4
Cont'l Bank		1782p	—	1877p	1278p	1,780	2.8
Dana		38½xd	+⅛	38½	29⅛	1,813	2.7
Data General		728p	+55	951p	527p	200.3	-
Decora Inds	♥	98p	—	146p	98p	-	-
Dun & Brad		44¼	—	44¼	37⅛	7,890	3.7
Eaton		35	+⅛	35	25⅛	2,436	2.3
Echlin		21⅛xd	+⅛	21⅛	15⅛	1,278	2.1
FPL		26¼xd	—	27⅞	23¼	4,889	6.2
Ford Motor		40xd	—	40	28⅛	19,679	2.7
Gen Elect		64⅛xd	-⅛	67⅛	53⅞	55,245	2.6
General Host	♥	500p	-14	723p	456p	-	4.5
Gillette		41⅛xd	+⅛	42⅞	31⅛	9,105	1.4
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.8
Honeywell		22¼xd	-⅛	28½	20⅛	4,613	2.7
Houston Inds		32¼	-⅛	33¾	28¼	4,178	6.2
Ingersoll-Rand		24⅛xd	+⅛	25⅛	18⅞	2,618	1.9
Lockheed		45½	+½	45½	35¼	2,821	3.1
Lowe's		3149p	—	3273p	1573p	2,205	0.7
Malvy Technology		329p	+10	330p	127p	-	-
Merrill Lynch		62½xd	-⅛	66⅞	37	6,827	1.7
Morgan (JP)		49½xd	-⅛	52¾	38¼	9,484	3.2
Morris (Philip)	♣	36¼xd	+⅛	52⅞	28	31,657	4.8
NYNEX	h	28½	-½	32⅛	28⅛	5,898	5.5
Pall		14	—	15	10⅞	1,624	1.5
Pennzoil		38⅛xd	+⅛	47⅛	31⅛	1,761	5.2
Quaker Oats		47¼xd	+⅛	50⅛	39⅛	3,443	3.0
Questor		228p	—	687p	43½p	21.6	-
Rockwell		23⅛xd	-⅛	24⅛	18⅞	5,071	2.9
Rep NY		34¼xd	-⅛	37⅛	29⅛	1,789	2.1
Sears, Roebuck		38⅛xd	+⅛	39⅛	18⅛	10,342	2.7
Sthwestern Bell	h	28⅞	+⅛	30½	23⅛	16,978	3.5
Sun Co		20⅞xd	-½	21⅛	14¾	2,192	6.8
Tenneco		33⅛xd	+⅛	38¼	25½	5,727	3.2
Texaco		45¼xd	—	48⅛	37⅛	11,837	4.7
Time Warner		29⅞xd	—	30⅞	18⅞	11,861	0.7
Unilab	♥	385½p	—	509p	358p	176.6	-
US West		33	—	33⅞	24⅞	13,677	4.3
Varity		2617p	—	2617p	1686p	781.4	-
WMX Technologies		16¼xd	+⅛	27⅛	15⅛	7,946	2.5
Whirlpool		4364pxd	+69	4677p	2824p	3,050	1.9
Woolworth	♥	16⅛	-⅛	21½	15⅞	2,060	4.8

CANADIANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbot Energy	♥	2p	—	2p	2p	-	-
Amer Barrick		1809p	—	1889p	890½p	5,156	0.3
Bk Montreal	h	13⅞	—	14¼	11⅛	3,328	4.2
Bk Nova Scot		1453p	—	1500p	111⅞p	3,053	3.9
BC Gas	♥	834p	—	857p	723p	-	3.6
BCE		23½	—	26⅞	20⅞	7,197	5.7
Brascan	♥	659p	—	721p	454p	643.5	8.0
Breakwater	♥	5p	—	16½p	4⅞p	3.18	-
Can Imp Bk		1603p	+10	1749p	1228p	3,381	4.2
Can Pacific		1110p	—	1136p	810p	3,640	1.5
[illegible]		[illegible]					

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993 high	1993 low	Yld Gr's	NAV	Dis or Pm(-)
Scot Asian Pfg	♣	261	+1	266	136	–	282.0	7.8
Warrants		665	–	665	225	–	–	–
Scot East	♣†□	83	+½	83	63½	2.3	93.7	11.7
Scottish Inv	♣†□	228	-1	231	183	2.6	262.1	13.0
Warrants	□	79¾	–	79½	38	–	–	–
Scot Mortgage	♣□	229	-1	238½	178	2.1	257.6	9.2
Scot National Inc	♣N□	105	+½	105	83	6.9	–	–
Cap	□	35	-1	36	16	–	116.4	69.1
Stepped Pf		157½	-½	158½	150¾	4.8	–	–
Zero Div Pf		228½	–	231½	207	–	–	–
Warrants		4¾	–	6	2½	–	–	–
Scot Value	†u□	101	+½	101	71	2.2	99.0	-2.0
Sec Alliance	♣N	1646	+1	1646	1380	3.0	1744.1	5.6
Second Consld	□	169	+2	169	89	–	191.4	11.9
Second HBSC	□	169	–	169	101	–	–	–
Second Market	♣u	406	–	406	258	0.6	419.5	3.2
Sec Tst Scot	♣□	93	–	93½	74½	4.4	93.1	0.1
Select Assets	□	162	–	163	109½	0.9	190.9	15.1
Eq Ind Sert		152	–	152	128	3.5	–	–
Eq Ind Serk		152	–	152	128	3.5	–	–
SHIRESCOT	♣u	144	–	146	104	4.6	140.5	-2.5
Shires	♣N	297	–	298	231	7.1	290.5	-2.3
Slam Select	♣	168	–	171	97	0.7	196.3	14.4
Smaller Cos	□	133	+1	136	76	2.4	127.8	-3.7
Warrants		57	–	57	14	–	–	–
Sphere Inc	□	37½	–	38	14	10.5	49.4	24.0
Zero Div Pf		92¾	+½	92¾	80¾	–	–	–
Units		926	–	926	765	–	–	–
Sumit		97	-1	105	38	1.8	101.7	5.1
TR City of Lon	N□	152½xd	–	154	128	3.9	148.4	-2.8
TR Euro Growth	♣N□	133	+1	133	78	1.6	132.9	0.3
Pfg Sub		78	–	78	27	2.2	–	–
TR Far East Inc	♣†□	163	–	166	112	3.6	166.2	2.2

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

OIL & GAS - Cont.

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

	Notes	Price	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Ennex Intl IR	♣□	7¼	–	7¼	3¼	[illegible]	–
Europa Mnls	N□	34	–	42	15	16.4	–
Glencar Expl IR	††	11	–	12	6	2.83	–
Greenwich Res	♣□	16¾	+¼	22¼	5	12.7	–
Hemlo Gold C$		55⅞	-⅛	58¼	23½	616.9	1.6
Ivernia West IR	††□	38	–	67	31	19.8	–
Kalle Mnls IR	††	12	–	14	6	6.29	–
Kenmare	♣□	9¾	–	13½	6	9.26	–
Metinga Res		7¾	–	25½	7	0.86	–
Nevon Res IR	♣	104	–	104	25	17.7	–
5pc Ln Notes		98	+1	98	25	17.6	–
Oryx Gold		27	–	76½	27	–	–
††Ovoca Res IR		9	–	9½	3½	0.63	–
RTZ	♣†N□	883	+4	746	607	7,250	3.9

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT3973. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Unit Trust Managers Limited (1000)F						
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783						
AIB Grofund American	5	162.8	164.3	172.8	+0.80	0.00
AIB Grofund Equity	5	233.5	236.6	250.6	+0.60	1.87
AIB Grofund Euro	5	192.2	194.3	204.5	+0.40	0.00
AIB Grofund Ext Balanced	3	113.9	115.6	119.6	+0.80	1.00
AIB Grofund Gilt	3	78.81	79.82	82.29	-0.08	4.70
AIB Grofund Japan	5	180.0	181.6	191.2	-1.60	0.00
AXA Equity & Law Unit Tst Mngrs (1200)H						
Equity & Law Hse, Corpn St, Coventry 0203 553231						
[illegible]						

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061-837 5060

Canada Life Unit Tst Mngrs Ltd (1200)F
High St, Potters Bar, Herts, EN6 5BA 0707 651122

Cannon Lincoln Fd Mngrs Ltd (1200)H
1 Olympic Way, Wembley, HA9 0NB
061-902 8876 Dealing: 0800 282621

Exeter Fund Managers Ltd (1400)F
23 Cathedral Yard, Exeter EX1 1HB 0392 412144

Family Investment Mngmt Ltd (1000)F
16 West Street, Brighton BN1 2RE 0273 220707

Fidelity Investment Servs Ltd (1200)F
130, Tonbridge Rd, Tonbridge TN11 9DZ
Callfree: Private Clients 0800 414161
Broker Dealings 0800 414181

Gartmore (John) Unit Mgmt Ltd (1000)F
Shackleton House, 4 Battle Bridge Lane, London SE1
071-378 7979 Dealing: 071-407 7666

INVESCO Fund Managers Ltd - Contd.

* Compound Annual Rate

Jupiter Merlin Unit Tst Mgrs Ltd (0905)F
197 Knightsbridge, London SW7 1RB 071-581 3020

Kleinwort Benson Unit Trusts (1400)F
10 Fenchurch Street London EC3
Dealers: 071-956 7354 Admin:071-956 6600

MW Investment Managers Ltd (0900)F

Maldon Unit Trust Managers Ltd (1400)F

Manulife Management Ltd (1000)F
St George's Way, Stevenage

Marks & Spencer Unit Trust Ltd (1200)F

Marlborough Fund Managers Ltd (1600)F

[illegible]

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing
Dealing: 0277 281010. Enq: 0903 204631

National Westminster UT Mngrs (1200)F
5 Rayleigh Road, Hutton, Brentwood, Essex
Dealing: 0277 690290 Admin Enquiries: 0277 690386

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Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

[illegible]

INSURANCES

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ			0256 470707	
Gold Range (Pensions)				
Managed Fund		175.4	-1.0	-
Provident Mutual Life Assc. Assn.				
8 Hills Way Stevenage Herts SG1 2ST			0438 732000	
Managed Ord	456.5	480.5	+1.3	-
Managed Init	319.2	336.0	+0.9	-
Equity Ord	684.5	720.5	+1.4	-
Equity Init	478.5	503.7	+1	-
Index Linked Gilt Ord	208.8	219.8	+0.9	-
Index Linked Gilt Init	182.5	180.8	+0.6	-
Overseas Equity Ord	377.1	396.9	+2.1	-
Overseas Equity Init	263.8	277.5	+1.5	-
Property Ord	233.7	246.1	—	-
Property Init	164.8	173.5	—	-
Fixed Interest Ord	284.3	299.3	+1.4	-
Fixed Interest Init	198.7	209.2	+0.9	-
Deposit Ord	199.2	209.7	—	-
Deposit Init	139.5	146.6	—	-
Pension Funds				
Managed Ord	675.8	[illegible]	+2.3	-
Managed Init	430.5	453.2	+1.6	-
Equity Ord	955.7	1006.0	+2.5	-
Equity Init	668.1	703.3	+1.7	-
Pen Ind Lkd Gilt Ord	238.3	250.8	+0.9	-
Pen Ind Lkd Gilt Init	174.0	183.2	+0.7	-
Overseas Equity Ord	451.5	475.3	+3.3	-
Overseas Equity Init	315.6	332.2	+2.2	-
Property Ord	304.8	320.8	+0.1	-
Property Init	213.1	224.3	+0.1	-
Fixed Interest Ord	371.7	391.3	+1.8	-
Fixed Interest Init	259.8	273.5	+1.2	-
Deposit Ord	293.1	308.5	—	-
Deposit Init	204.9	215.7	—	-
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH			071-405 9222	
Prubond				
Managed Oct 20	325.9	339.8	—	-
Prudential Corporate Pension Funds				

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

John Govett (Channel Islands) Ltd (1000)F

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Bank Von Ernst & Cie AG - Contd.

Banque Scandinave a Luxembourg SA

Barclays Diversified Portfolio

INVESCO International Limited - Contd.

Jupiter Tyndall Global Fund

LUXEMBOURG (REGULATED)(**)

Alliantas Sicav

Banque Ferrier Lullin (Lux) SA

Banque Indosuez Luxembourg

Banque Paribas Luxembourg

CB Fund International (u)

CSFB Umbrella

Capel-Cure Myers Intel Fd Sicav (u)

Citicorp Investment Mgmt (Luxembourg) SA

Clemente Korea Emerging Growth Fund

Credit Commercial de France

Nikko Bank (Luxembourg) S.A.

Nomura Asian Infrastructure Fd SICAV

Nomura Rosenberg Alpha Fund Mark II

Nordic Currency Fund

Pacific Basin Growth Fund

Rosenberg Global Mngt Co SA (u)

Rosenberg Management SA (u)

Rosenberg US Japan Mngmt Co SA (u)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

Confidence data hit US dollar

THE US dollar fell briefly against a generally weaker D-Mark yesterday as the latest consumer survey showed that confidence in the economy had dropped, *writes Peter John.*

The correction marked the end of a one-week run which saw the US currency record a gain of some 7 pfennigs against the D-Mark.

Profit-taking in Tokyo on Monday night had already brought the dollar back from its highs against the D-Mark. Then, the latest consumer confidence index showed a fall to 59.4 per cent in October from 62.6 per cent in September against expectations of a rise.

The dollar slid a pfennig against the D-Mark but rallied later to close at DM1.6810, up from DM1.6735 previously.

By contrast, the Canadian dollar was down more than two cents against the US currency at one stage. Dealers said the Bank of Canada was intervening to dampen volatility in the Canadian currency as it was announced that the Conservative party had been trounced by the Liberals in the country's general elections.

News that the Bloc Quebecois had become the leading opposition party revived concern of a resurgence of separatism. There were also misgivings about the Liberal Party's economic programme. The Canadian dollar fell to C$1.3260 to the US dollar at one stage and closed a cent lower at C$1.32.

The pound retreated from a Monday night gain against the D-Mark as investors took early profits. It fell further as the latest Confederation of British Industry quarterly industrial trends survey showed manufacturers' orders and output were flat in the past four months and export orders had fallen back.

Sterling closed unchanged against the D-Mark at DM2.4875 while it fell against the dollar to $1.4795 from $1.4860.

The D-Mark continued easier against rival European currencies as provisional west German consumer price inflation data for October came in much as expected and no signals were anticipated from today's Bundesbank repo. It slipped a centime to FFr3.48 against the French franc and fell against the Greek drachma and Norwegian krone in spite of interest rate cuts in Greece and Norway.

Greece cut its discount rate by half a point to 21.5 per cent and its Lombard rate by a percentage point to 25.5 per cent. Foreign investors had sold drachmas on worries over the new socialist administration but the weekend policy statement was mild and investors decided to readjust their positions. The drachma closed at Dr143.55 to the D-Mark against Dr145.54 previously.

Norway's central bank cut its rate for overnight deposits to 5 per cent from 5.5 per cent and the krone rose to NKr4.351 to the D-MArk from NKr4.352.

Portugal cut its nine-day repo rate by half a point to 10.375 per cent and the escudo eased to Es103.62 to the D-Mark from Es103.2.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Oct 26	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.15112	-2.08	5.64	-
D-Mark	1.94964	1.91524	-1.76	5.31	-
Spanish Peseta	154.250	152.982	-0.82	4.30	6
Irish Punt	0.808628	0.810516	0.23	3.21	-2
French Franc	6.53883	6.67718	2.12	1.31	-18
Portuguese Escudo	192.854	198.109	2.72	0.71	-18
Belgian Franc	40.2123	41.5604	3.35	0.09	-24
Danish Krone	7.43679	7.68337	3.45	0.00	-24

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
‡Indicative values only. Divergence indicators are based on 15% band fluctuations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

£ IN NEW YORK

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls November	Calls December	Calls March	Puts November	Puts December	Puts March
123	-	1.60	-	-	0.10	-
124	0.58	0.81	-	0.03	0.30	0.14
125	0.05	0.29	-	-	0.79	-
126	-	0.06	-	-	-	0.38
127	-	-	2.40	-	-	0.62
Open Int	30,417	208,954	89,472	30,748	172,044	67,181

Estimated volume 34,416 † Total Open Interest 599,296
† All Yield & Open Interest figures are for the previous day.

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4795	1.4759	1.4711	1.4645	1.4542

BASE LENDING RATES

	%		%		%
Adam & Company	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
Allied Trust Bank	6	Exeter Bank Limited	7	Rea Brothers	6
AIB Bank	6	Financial & Gen Bank	7	* Roxburghe Bank Ltd	6
●Henry Ansbacher	6	●Robert Fleming & Co	6	* (in administration)	
Bank of Baroda	6	Girobank	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	●Guinness Mahon	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	Habib Bank AG Zurich	6	Standard Chartered	6
Bank of Ireland	6	●Hambros Bank	6	TSB	6
Bank of India	6	Heritable & Gen Inv Bk	6	●United Bk of Kuwait	6
Bank of Scotland	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Barclays Bank	6	C. Hoare & Co	6	Western Trust	6
Brit Bk of Mid East	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
CL Bank Nederland	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
Citibank NA	6	Lloyds Bank	6		
City Merchants Bank	6	Meghraj Bank Ltd	6		
Clydesdale Bank	6	Midland Bank	6		
The Co-operative Bank	6	* Mount Banking	6		
Coutts & Co	6	* (in administration)			
Credit Lyonnais	6	NatWestminster	6		
Cyprus Popular Bank	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Bank operations tight

UK interbank operations were tight ahead of a record sized government bond auction today, *writes Peter John.*

The Bank of England forecast a liquidity shortage of around £550m in the money market, later revised to £650m.

The shortage was smaller than many in recent days with the result that the Bank of England did not offer early assistance.

UK clearing bank base lending rate 6 per cent from January 26, 1993

However, there was an unwillingness among market participants to accept Bank help at a second round at midday, when only £3m of bills were bought.

A further £219m of band one bank bills were bought in the afternoon with discount houses principally meeting the liquidity shortage. After the official close, the Bank gave late help of £190m bringing the day's total to £412m.

Also, short sterling moved within a very narrow range in spite of a gloomy economic survey which might have given further impetus for a UK interest rate cut.

The latest Confederation of British Industry quarterly industrial trends survey showed that UK manufacturers' orders and output were flat and export orders lower.

One dealer said: "You can make a very very good case for a one-point cut now and short sterling is still only discounting a half-point reduction. I think the market is overbought and people are holding back ahead of today's gilts auction."

The short sterling futures contract for December was up at 94.65 in early trading but slipped back to close two basis points weaker at 94.59.

● German and French short-term interest rate futures held steady ahead of today's securities repurchase by the Bundesbank. German call money was quoted at around 6.5 per cent, little changed from Monday's levels, and dealers said the market was well-offered.

The German Euromark contact for December was slightly easier at 93.88 by the close and the French December contract was unchanged at 93.73.

Market opinion was split as to the likely level of the repo funds allocated, but the amount is expected to be similar to last week's DM74.1bn and most dealers said the award would have no significant impact on short interest rates. Call money was seen holding above the repo rate of 6.40 per cent this week.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct 26)	3 months US dollars		6 months US Dollars	
	bid 3 5/16	offer 3 7/16	bid 3 3/8	offer 3 1/2

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

AUSTRIA

October 25	Sch	+ or −
Austrian Airlines	1,785	....
Bank Austria	1,005	....
Creditanstalt Pf	810	....
EA General	3,980	—
EVN	1,298	—
Lenzing	986	—
OeMV	828	—
Perlmooser Zement	900	—
Radex Heraklith	439	—
Steyr Daimler	183	—
Veitscher Magnesit	343	—
Verbund (Br) A	718	—
Vienna Int Airport	518	—
Wienerberger	3,900	—

BELGIUM/LUXEMBOURG

October 26	Frs.	+ or −
AG Group	2,565	....
Ackermans	3,480	....
Almanij	7,990	+80
Arbed	3,850	+60
BBL	4,225	—
Bank Intl a Lux	16,100	+10
Banq Gen Lux Pts	24,225	+125
Banque Nat Belg	30,000	-1,000
Bekaert	19,500	−75
CBR Ciment	11,375	−25
CMB	2,295	+5
Cobepa	5,200	....
Cockerill Priv	140	−1
Colruyt	5,900	−50
Delhaize Fre Lion	1,312	..
Electrabel	6,320	+20
Electrabel AFV1	6,250	−70
Electrafina ACT	3,000	+50
GBL	3,695	+20
GBL AFV 1	3,590	+30
GIB Group	1,242	−14
Generale Banque	8,900	−40
Gevaert	8,350	−50
Glaverbel	4,080	+60
Immobel	3,610	−40
Kredietbank	7,670	—
Kredietbank AFV	7,430	−30
Mecaniver	5,700	−180
Mosane	1,595	....
Pan Holding Lux	16,100	+50
Petrofina	9,680	+100
Powerfin	3,100	−20
Recticel	387	−4
Royale Belge	4,890	−5
Royale Belge AFV 1	4,650	+70
Soc Gen Belge	2,610	−10
Soc Gen Belge AFV	2,540	−65
Sofina	13,825	−125
Solvac	1,510	+10
Solvay	13,550	+75
Tractebel	9,300	−100
UCB	23,400	−350
Union Miniere	2,395	+10

DENMARK

October 26	Kr	+ or −
Aalborg Portland A	515	+3
Bikuben	214	−1
Carlsberg A	281	—
Codan	5,200	+50
D/S 1912 A	121,000	−1,000
Danisco	980	−2
Den Danske Bank	398.50	−1.50
East Asiatic	161	−2
FLS Ind B	465	+13
Great Nordic	611.53	+2.53
ISS Int Serv B	215.81	−.19
Jyske Bank Reg	370	..
Lauritzen (J) B	1,100	+20
NKT A/S	235	+1
Novo Nord B	642	+4
Radiometer B	600	—
Sophus Berend A	487	—
Sophus Berend B	482	+2
Superfos	385	—
TopDanmark	970	+3.79
Unidanmark A	223	—

FINLAND

October 26	Mks	+ or −
Amer A	85.80	−.20
Cultor 1	138	−2
Enso R	39.30	+.20
Huhtamaeki I	187	+4
KOP	14.70	−.40
Kesko	37	—
Kone B	559	+14
Kymmene	90.10	—
Metra A	189	+5
Metra B	199	+13
Metsa-Serla A	241	−4
Metsa-Serla B	242	+4
Nokia Pref	318	—
Outokumpu A	64	−1
Pohjola A	85	—
Pohjola B	80.50	−1.50
Repola	86.20	+.20
Stockmann B	175	+7
Tampella	26.10	+.30
Unitas C	18.30	+.30

FRANCE

October 26	Frs.	+ or −
AGF	720	+2
Accor	617	+1
Air Liquide	817	+18
Alcatel Alsthom	775	−10
Axa	1,606	−11
BIC	1,273	+46
BSN	902	−16
BNP	292.40	−1.90
Bancaire Cie	550	+5
Bongrain	2,399	+18
Bouygues	688	−18
CGIP	1,323	−7
Canal+	1,322	−17
Cap Gemini S	172	−8.10
CarnaudMetalbox	206	+.50
Carrefour	3,650	−17
Casino	180.40	−1.60
Chargeurs	1,158	−13
Club Mediterranee	350	−3.60
Coparex Intl	835	−65
C C F	287.30	+1.30
Cr Fonc France	1,241	+2
Cred Lyon (CI)	730	+1
Credit Local Fr	461	−1.70
Credit Nationale	685	—
Damart	5,070	−30
Docks de France	699	+23
Dollfus Mieg Cie	303.10	−4.90
EBF	679	+15
Eaux Cie Genl	2,851	−36
Ecco	537	−3
Elf Aquitaine	456.70	−2.40
Elf Aquitaine Certs	409	—
Elf Sanofi	1,027	+8
Eridania B-Say	875	−18
Eridania B-Say CI	720	+7
Essilor Intl	623	....
Elm	2,100	+40
Eurafrance	2,125	−3
Euro RSCG	545	—
Euro Disney	52.60	−.15
Finextel	152	+2
Fonc Lyonnaise	849	+9
Fromageries Bel	5,000	....
GTM-Entrepose	509	−3
Gal. Lafayette	1,870	+18
Gaumont (Soc N)	789	−11
Geophysique	828	+3
Havas	473.50	−10.50
Imetal	530	+16
Imm de France	1,080	−8
Immobanque	871	+3
Immob Phenix	127	+.50
Interbail	566	+10
Intertechnique	527	+2
LVMH	3,784	−5
Lafarge Coppee	437.20	−2.60
L'Oreal	1,196	−19
Legrand	4,945	+54
Legris	188	−4
Lyonn Eaux Dumez	547	..
Matra-Hachette	146.90	+.40
Michelin B	179	−6
Moulinex	105.50	−.60
Navigation Mixte	1,049	+9
Nord Est	153.90	+.80
Orsan	140	+2
Paribas	495	−8
Paris Reescompte	519	+3
Pernod Ricard	428.90	+2.80
Peugeot	833	−7
Pinault Printemps	858	+21
Promodes	1,108	+45
Radiotechn	348	−7
Redoute	951	−19
Rhone Poulenc A	153.40	+.40
Roussel-Uclaf	675	+12
SILIC	859	+19
Sagem	2,530	+150
Saint Gobain	564	−9
Saint Louis	1,428	+5
Schneider	388	+13
Seb SA	498	+3
Sefimeg	490.20	−3.80
Simco	594	+5
Skis Rossignol	1,682	−7
Soc Generale de Fr	708	−2
Sommer-Allibert	1,962	−3
Spie Batignolles	373.50	−1.50
Suez (Cie de)	359.20	−5.80
Taittinger	2,381	+1
Thomson C S F	164.50	−3.50
Total B	328.30	−4.60
UAP	663	−8
UFB Locabail	395	−4
Unibail	518	—
Union Immob Fr	822	+6
Valeo	1,078	+14
Vallourec	208.10	−1.90
Worms Cie	312	−1

GERMANY

October 26	Dm.	+ or −
AEG	164.70	+.20
AG Ind & Verk	576.80	+2.30
Aachen Mch (Reg)	1,366	−2
Allianz AG	2,836	−35
Altana Ind	580	−1
Asko	918	−9
Asko Prf	849	−11
BASF	273.10	−2.40
Badenwerk	400	−1.50
Bayer	320	+.20
Bayer-Hypo	477	−18.50
BMW (Br)	824.50	−6.50
Bayer Vereinsbk	534.50	−5.50
Beiersdorf	900	+1
Berliner Bank	426	−5
Berliner Kraft	217.30	+5.30
BHF Bank	530	−6
Bilf. & Berger	915	−4
Colonia Konzern	1,380	−20
Colonia Konzern Pf	990	—
Commerzbank	354.30	−4.70
Continental AG	249	+5

JAPAN

October 26	Yen	+ or −
Ajinomoto	1,400	−30
Akebono Brake Ind	564	−1
All Nippon Airways	1,180	−80
Alps Electric	1,080	−40
Amada Co	972	−27
Amano Corp	1,620	+10
Ando Construction	653	+8
Anritsu	1,160	−50
Aoki Corp	479	−6
Aoyama Trading	8,080	−30
Arabian Oil Co Ltd	5,300	−100

October 26	Yen	+ or −
Ito Yokado	5,450	−70
Iwatsu Elec	610	−13
Izumiya	1,810	−60
JEOL	631	−19
JGC Corp	1,970	....
Janome Sewing Mach.	320	−14
JAL	681	−19
Japan Metals & Chem.	545	−28
Japan Radio	1,860	−40
Japan Steel Works	384	−1

TOKYO - Most Active Stocks

Tuesday, October 26, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	6.4m	335	-14	Kawasaki Steel	2.5m	329	-15
Mitsubishi Hvy	3.0m	683	-6	Hitachi	2.5m	850	-11
Fujitsu Ltd	2.9m	849	-16	Toshiba Corp	2.4m	705	-8
NKK Corp	2.5m	274	-4	NEC Corp	2.3m	881	-22
Tokyo Gas	2.5m	635	+4	Osaka Gas	2.1m	537	+2

4 pm close October 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
8¾	5⅛	Berold	0.20	2.4	31	3973	8⅜	8¼	8⅜	+⅛
10⅞	4⅞	Battle Mt	0.05	0.5	20	4923	9⅞	9⅜	9⅞	+⅜
57½	43	Bausch Lomb	0.88	1.8	18	1108	50⅞	50	50⅛	-1⅛
32¾	20	Baxter	1.00	4.3	13	14411	23½	23	23½	+¾
32	24⅜	Bay St Gas	1.42	4.8	17	84	30¼	29⅞	29⅞	-¼
25	22	Bd Tr 1838	1.72	7.4		45	23¼	22⅞	23⅛	+⅛
26	15	Bear Stms	0.60	2.7	8	4112	22⅛	21⅝	22⅛	+⅜
50¼	45½	BearS5PIA	2.75	5.6		2100	49½	49½	49½	
27	20½	Bearings	0.64	2.4	20	26	u27⅛	26⅝	27⅛	+⅝
27⅞	19¾	Beckman In	0.36	1.3	16	103	27	26¾	27	+⅛
40¾	32⅝	Becton Dks	0.66	1.8	13	1189	36¾	36¼	36½	-⅜

Continued on next page

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4 pm close October 26

NYSE COMPOSITE PRICES

Continued from previous page

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- T -

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- V -

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Price data supplied by Telekurs

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AMEX COMPOSITE PRICES

4 pm close October 26

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 26

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- C -

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- D -

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AMERICA

Dow hit by consumer data and profit-taking

Wall Street

PROFIT-TAKING and news of weakening consumer confidence sent US share prices lower across the board yesterday morning, bringing blue-chip and cyclical stocks down from their record highs, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 15.65 at 3,657.96. The more broadly based Standard & Poor's 500 was down 1.06 at 463.14, while the Amex composite was 2.05 lower at 473.53, and the Nasdaq composite down 5.45 at 764.30. NYSE volume was 158m shares by 1 pm.

Although prices firmed at the opening, after Monday's gains when the Dow rose to a new all-time high, it was clear that market participants had decided to take some quick profits. Consequently, an early 10-point gain turned into a 10-point loss within the first hour of trading.

Profit-taking was not confined to the big blue-chip, industrial and cyclical stocks which lifted the Dow into record territory on Monday; secondary stocks posted their second straight day of big declines.

The high level of share prices and the poor state of economic fundamentals continue to worry some investors. Concern about the economy will only have deepened yesterday after the Conference Board announced that its index of consumer confidence had dropped in October to 59.4, down from 63.8 in the previous month.

The news lifted bond prices for the first time in three days – in the process, the yield on the 30-year bond fell back under 6 per cent – but depressed equity market sentiment.

Among individual stocks, IBM rose $1 to $45¼ in early trading after the troubled computer giant unveiled a third quarter loss of 12 cents a share, smaller than analysts had expected. The stock, however, could not hang on to its early gains, and by early afternoon IBM was down $¼ at $44¾ in volume of 1.5m shares.

Leading Dow stocks which were in good form on Monday wilted amid profit-taking. Eastman Kodak fell $⅝ to $58⅝, Allied-Signal eased $¼ to $72⅝, Aluminum Company of America slipped $⅝ to $70 and Minnesota Mining & Manufacturing eased $⅞ to $105.

RJR Nabisco fell $⅛ to $5¼ after the tobacco and foods company unveiled third quarter net income, sharply lower than a year ago because of the cigarette price war.

Pharma Resources climbed $2⅞ to $16⅞ in heavy trading after the Food and Drug Administration said it would review the company's applications for generic drugs, a decision that opens the way for the company to seek new product approvals.

National Health Laboratories slumped $1⅞ to $13⅞ in volume of 1.7m shares after the company issed a warning about lower third quarter revenues.

Canada

TORONTO edged ahead in cautious midday trading as investors awaited the first moves of the new Liberal government.

The TSE 300 composite index moved up 8.15 to 4,163.41 in turnover of C$298.89m.

EUROPE

Continent loses ground in late trading

BOURSES mostly opened higher on Wall Street's overnight gains and a higher dollar, but German stocks were an exception and the rest lost ground later in the day, *writes Our Markets Staff.*

FRANKFURT extended Monday's post bourse losses, the DAX index dropping 15.67 to 2,058.72 on the session and the Ibis-indicated Dax losing another 9.98 to 2,048.74 by the end of the afternoon. Turnover rose from DM8.4bn to DM8.8bn.

National inflation figures were mixed and the bond market was a little disappointed. Broadly-based profit-taking was seen in financials, where falls of 1 per cent were commonplace and Bayernhypo dropped DM10.50 to DM477. However, Deutsche Pfandbrief- und Hypothekenbank (DePfa) climbed DM21 to DM831 after the bank reported a 29 per cent profit rise in the first nine months of this year.

Some of the second line cyclicals posted gains. In the automotive sector, Continental and Varta, tyre and battery makers respectively, rose DM5 to DM243 and DM8 to DM326, while Porsche put on another DM19 to DM794.

The apparent rationale for these upgrades, in a rising US dollar and prospectively better profit margins, was not applied to front-line cyclicals like BMW, which fell DM6.50 on the session to DM624.50, and Daimler, DM5.50 lower at DM749.50. Ms Barbara Altmann, of B Metzler in Frankfurt, said that the gains lower down the size scale were dealer-inspired.

Trading in PARIS was suspended twice during the session because of technical problems, following a similar difficulty on Monday. The CAC-40 index finished down 17.36 or 0.8 per cent at 2,210.37.

Thomson-CSF lost FFr3.50 to FFr164.50 as some negative brokers' comments on the stock surfaced. One of them, from James Capel, forecast that 1993 profits were expected to fall to their lowest level since 1984, and would continue to remain under pressure in 1994 and 1995.

Outside the CAC-40, Synthelabo, which on Monday shed 7.4 per cent, eased a further FFr6.60 to FFr221.50 following the withdrawal by the French regulator of the licence for its anti-anxiety drug. Mr Mark Tracey at Goldman Sachs commented that this action confirmed his view of the company's weak product mix and saw the shares continuing to underperform the market.

L'Oreal, the parent group, shed FFr19 to FFr1,195.

ZURICH forgot about following Frankfurt, and rebounded in active trading on the firm dollar and lower interest rates. While it closed off its peaks, as both the dollar and Wall Street weakened, the SMI index rose 15.3 to 2,700.2.

Selected insurance and chemical stocks led the advance, with strong interest also seen in dollar-sensitive shares such as Surveillance and Nestlé. Among chemicals, Sandoz bearers rose SFr60 to SFr3,780; in the insurance sector, Winterthur rose SFr14 to SFr794 and Swiss Re by SFr40 to SFr3,940, although Zurich Insurance fell SFr13 to SFr1,340.

AMSTERDAM lost pace towards the close as the dollar softened and the CBS Tendency index slipped 0.7 to 135.8, having seen a day's high of 137.6.

Unilever added just 10 cents to Fl 213.80, down from a day's high of Fl 216.40. James Capel has upgraded the stock to 'a buy partly on the basis that the group is well placed to benefit from economic recovery and forecasts earnings growth of up to 11 per cent over the next three years.

Philips, after hitting a new year's high at midsession of Fl 40.00, eased back to close off 10 cents at Fl 39.20.

MILAN weakened on a late round of selling. The Comit index lost 6.68 to 585.53. Pressure was seen continuing in Fiat shares which ended off L144 or 3.8 per cent at L3,706. The telecommunications sector also weakened with Stet down L113 at L4,058 and Sip down L94 at L3,529. Stet yesterday announced the sale of its 20 per cent stake in a Dutch group.

ATHENS added weakness in construction stocks to the pressure on bank shares which drove the market down on Monday, and the general index closed another 9.22, or 1.1 per cent down at 836.75. The building sector declined on news that the Greek construction company, AEGEK, would be introduced to the exchange in November.

Written and edited by William Cochrane and John Pitt.

FT-SE Actuaries Share Indices

October 26								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1384.39	1383.63	1383.25	1382.07	1381.84	1379.28	1377.15	1377.10
FT-SE Eurotrack 200	1447.44	1446.87	1445.32	1443.80	1442.21	1438.99	1439.29	1437.92

	Oct 25	Oct 22	Oct 21	Oct 20	Oct 19
FT-SE Eurotrack 100	1378.69	1386.16	1365.45	1348.34	1346.27
FT-SE Eurotrack 200	1442.09	1447.89	1436.57	1422.07	1414.64

Base value 1000 (26/10/90) High/day: 100 - 1384.88; 200 - 1448.58 Low/day: 100 - 1375.95 200 - 1436.50.

Corporate recovery boosts Swedish stocks

Strong overseas buying has also provided support, writes **Christopher Brown-Humes**

It could hardly be more ironic. In the month when Sweden's blue collar trade union has said that the country is in a depression and not in a recession, and the government has predicted the worst economic performance since the Second World War for this year, shares have broken through the all-time high reached in August 1989.

At yesterday's close the Affärsvärlden general index showed a gain on the year to date of more than 50 per cent, making the Stockholm stock exchange one of Europe's strongest performers.

A combination of falling interest rates, corporate recovery and record foreign buying have created the conditions for the rally. Interest rates remain on a downward trend, as the central bank demonstrated last week when it cut its key marginal rate further to 7.75 per cent.

At the same time, the weaker krona and massive corporate restructuring have made the big multinationals much more competitive, causing exports and profits to recover strongly in spite of weak demand in key markets.

Sweden's finance minister said last week that the economy had reached bottom, echoing common expectation that economic growth will resume next year after three consecutive years of contraction. This has encouraged investors, who are getting ever less from keeping money in the bank, to buy now for the recovery.

Adjusted for inflation, shares are still well below their former peak in 1989. Strip out Astra and Ericsson, the stock market's star turns, and the performance is still less impressive. These two companies alone account for some 24 per cent of total market capitalisation.

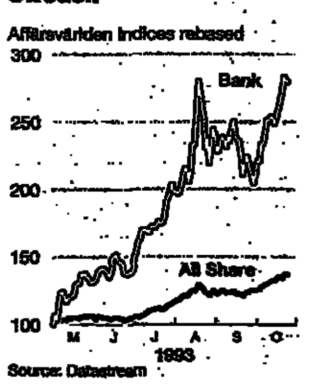
Ericsson has had a phenomenal year, rising from a low point of SKr172 in January to SKr444 yesterday. At these levels a huge recovery in profits is already being discounted; what seems to be driving the share price now is expectations of a very heavy inflow of orders in a booming world telecommunications market.

Astra has performed less spectacularly, but its shares have still risen from SKr148 to SKr174, helped by very strong sales growth for key drugs.

These two companies apart, it has been the banking sector which has put in the best performance, on the strengthening belief that the worst of the Swedish banking crisis is now over. The bank and insurance index is up nearly 280 per cent since the start of the year.

Sweden

Affärsvärlden indices rebased



Source: Datastream

Most analysts believe that the market will climb as interest rates come down and evidence of economic recovery becomes more visible. They point to a series of corporate tax reforms as another factor which should help to sustain upward momentum.

The reforms, to take effect from January, will scrap taxes on dividends from Swedish companies for domestic residents, and halve the capital gains tax on equities to 12.5 per cent.

The single most significant development on the stock exchange over the last 12 months has been the surge in overseas buying, which has lifted foreign share ownership to around 24 per cent from just 10 per cent at the end of 1991. International institutions have been attracted not just by the prospect of profits, but by a big increase in market liquidity.

Foreigners now hold around 44 per cent of Ericsson, compared with 27 per cent at the end of last year, and some 38 per cent of Astra. Such levels of ownership make the stock market far more sensitive to the behaviour of international investors. The obvious danger is that the market will suffer a setback if foreigners start to lock in profits.

There are other reasons to be wary, according to Mr David Longmuir, a Scandinavian specialist with James Capel in London. One worry is how much scope the government has for further deep cuts in interest rates. "The budget deficit is an enormous cloud on the horizon which will not go away," he states.

Another concern is the recent spate of rights offers and the prospect of new privatisation issues. These are making heavy demands on institutional funds and could stem the buying required to drive share prices higher.

ASIA PACIFIC

JR East flotation leaves Nikkei with 1.4% decline

Tokyo

STOCK PRICES lost ground as investors liquidated holdings to buy East Japan Railway shares which were floated yesterday, *writes Emiko Terazono in Tokyo.*

The 225-issue Nikkei average declined 285.73, or 1.4 per cent, to 20,023.60.

Traders said overall trading was slack as investors focused on JR East shares, which were not traded until the end of the day because of a lack of sellers. The Nikkei rose to the day's high of 20,344.53 in the morning, and fell to 20,019.90 during the afternoon.

Mr Yasuo Ueki at Nikko Securities said share prices had declined as the rush of buy orders for JR East had clogged up the computer at the Tokyo stock exchange, making large programme buying of shares impossible. Meanwhile, small-lot selling by dealers on the final trading day for October settlements also depressed prices.

Volume was 333.9m shares, against 312m. Falls overwhelmed rises by 967 to 109, with 107 issues unchanged. The Topix index of all first section stocks shed 24.13 to 1,645.31, and in London the ISE/Nikkei 50 index eased 3.83 to 1,295.28.

Due to the lack of sellers, buyers raised their bids throughout the day for JR East, which was publicly offered in August at Y380,000. The stock finally traded at Y600,000 at the session's end.

However, in spite of previous hopes that trading in JR East would boost overall activity, stock prices lost ground, led by a fall in large-capital issues. Nippon Steel, the most active stock of the day, fell Y14 to Y335 and Mitsubishi Heavy Industries declined Y8 to Y683.

Traders still hope that investors who had bought JR East at Y380,000 will put their profits back into the stock market. "Profits held by individual investors who bought the stock at Y380,000 are estimated to total Y300bn to Y400bn," said one Japanese broker.

Nippon Telegraph and Telephone, which was sold by investors wanting to buy JR East shares, retreated Y30,000 to Y843,000.

Kajima, the construction company, lost Y2 at Y859 after public prosecutors arrested the company's vice-president for allegedly bribing politicians.

In Osaka, the OSE average slipped 239.38 to 21,982.02 in volume of 20.1m shares. The index dropped below the 22,000 line for the first time since July 28 on small-lot selling.

Roundup

MOVES in politically sensitive markets enlivened the region.

NEW ZEALAND, where an election is due to be held on Saturday week, saw a 23-cent rise to NZ$4.23 in market leader Fletcher Challenge, and a new four-year high in the NZSE-40 index, which closed 14.9 stronger at 2,113.01.

The New Zealand government has a 6.7 per cent holding in Fletcher, which recently announced moves to simplify its structure by shaving off forest and rural servicing assets into separate companies. The 3.2m shares traded in the stock accounted for a big slice of the market's NZ$37.5m turnover.

KARACHI closed higher for the 12th consecutive session, the KSE index rising 20.73 to a 1993 peak of 1,522.17. The bullish trend reflects the victory of Ms Benazir Bhutto's PPP (Pakistan People's Party) in the October 6 elections.

BOMBAY dropped as fears over a political crisis in the northern state of Kashmir undermined sentiment. The BSE index closed 40.8 lower at 2,700.3. In COLOMBO, however, foreign buying of Sri Lankan stocks took the all-share index up 14.57 to 758.93.

HONG KONG's Hang Seng index rose 58 points in morning trade as bargain hunters snapped up shares, and then fell back on profit-taking before ending 23.40 ahead at 8,790.90. Brokers said smaller companies were the main focus of trading, with China-linked shares holding up well. Turnover eased from HK$5.61bn to HK$5.02bn.

AUSTRALIA rebounded from morning lows, bargain hunters lifting the All Ordinaries index a net 8.8 to 2,055.7, after touching 2,039.9. Turnover was A$310.2m. Heavyweights put in most of the recovery, BHP rising 22 cents to A$17.16 and CRA 14 cents to A$15.50.

SEOUL saw healthy interest in electricity utility Kepco as the composite index rose 5.49 to 747.97. Kepco climbed Won600 to Won20,800, but brokers were cautious, saying that heavy institutional selling pressure was lurking at the Won21,000 level.

MANILA's composite index advanced 12.35 to 2,243.55 in spite of an overnight correction in Philippine Long Distance Telephone, which dipped $⅝ to $61¼ on Wall Street.

TAIWAN, where plans to ease curbs on foreign investment in the stock market were announced yesterday, fell on profit-taking, the weighted index slipping 8.92 to 4,091.17.

BANGKOK got the jitters in the morning following the dismissal of Mr Sawasdi Amornvivat, the national police chief, but the SET index came back from a low of 1,135.67, down 13.87, to finish 8.74 higher on balance at 1,158.28 in moderate turnover of Bt8.21bn.

SOUTH AFRICA

DE BEERS pulled ahead in a generally weak market, gaining 50 cents at R84.50, helped by a rise in New York. The gold shares index lost 18 to 1,728 and industrials declined 15 to 4,487. The overall index dipped 10 to 3,881.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 25 1993								FRIDAY OCTOBER 22 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	154.58	-0.6	154.22	105.92	134.49	153.58	-0.5	3.36	155.45	156.46	106.32	135.37	154.41	155.77	117.39	121.51
Austria (17)	178.86	-0.2	178.45	122.56	155.62	155.02	-0.5	1.02	179.28	180.45	122.62	156.13	155.75	184.47	131.16	151.48
Belgium (42)	150.39	+0.0	150.05	103.04	130.85	134.63	+0.2	4.28	150.36	151.34	102.83	130.94	134.42	156.76	131.19	138.71
Canada (107)	131.00	-0.4	130.70	89.76	113.97	124.22	+0.0	2.69	131.49	132.34	89.93	114.49	124.20	131.49	111.41	115.86
Denmark (32)	238.54	+0.4	238.00	163.46	207.55	218.43	+0.5	1.04	237.71	239.26	162.58	207.00	217.26	239.12	185.11	186.57
Finland (23)	125.09	+0.4	124.80	85.71	108.83	150.72	+0.1	0.89	124.63	125.45	85.25	108.54	150.53	125.09	65.50	64.48
France (96)	171.85	+0.1	171.45	117.74	149.50	157.49	+0.0	2.95	171.71	172.82	117.43	149.51	157.57	173.05	142.72	149.30
Germany (60)	134.82	+0.4	134.51	92.39	117.30	117.30	+0.3	1.81	134.23	135.11	91.82	116.89	116.89	136.13	101.59	109.93
Hong Kong (55)	349.79	+0.7	348.98	239.68	304.34	347.09	+0.6	2.99	347.31	349.58	237.54	302.46	345.02	357.10	218.82	250.20
Ireland (14)	172.30	+0.0	171.91	118.07	149.91	172.62	+0.0	3.25	172.30	173.43	117.85	150.05	172.62	174.50	129.28	135.21
Italy (70)	70.87	-0.4	70.71	48.56	61.66	85.19	-0.5	1.96	71.14	71.61	48.66	61.95	85.60	78.93	53.78	55.91
Japan (469)	154.51	+0.4	154.16	105.87	134.45	105.87	+0.6	0.78	153.87	154.87	105.24	134.01	105.24	165.91	100.75	105.26
Malaysia (69)	460.63	-0.4	459.57	315.61	400.76	452.20	-0.4	1.52	462.65	465.66	316.42	402.88	453.83	462.65	251.66	262.27
Mexico (19)	1863.50	+0.9	1859.22	1276.90	1621.34	6342.59	+0.9	0.78	1846.96	1858.99	1263.23	1608.39	6283.28	1863.50	1410.30	1432.99
Netherland (24)	194.60	-0.1	194.15	133.34	169.31	166.93	-0.2	3.28	194.70	195.97	133.17	169.56	167.33	195.17	150.39	155.58
New Zealand (13)	65.56	-0.2	65.41	44.92	57.04	62.57	+0.0	3.55	65.68	66.11	44.93	57.20	62.57	65.68	40.56	39.04
Norway (23)	183.38	+0.2	182.96	125.65	159.55	181.32	+0.1	1.41	182.98	184.17	125.15	159.35	181.18	185.10	137.71	140.08
Singapore (38)	327.49	+0.2	326.74	224.40	284.93	236.94	+0.0	1.43	326.93	329.06	223.61	284.70	236.99	332.55	207.04	184.15
South Africa (60)	214.22	+1.0	213.72	146.78	186.37	195.95	+0.6	2.71	212.02	213.40	145.01	184.63	194.75	218.72	144.72	156.99
Spain (42)	144.41	-0.6	144.08	98.96	125.64	146.44	-0.6	4.03	145.24	146.19	99.34	126.48	147.34	145.24	115.23	112.45
Sweden (36)	201.96	-1.4	201.49	138.39	175.72	241.80	-1.0	1.40	204.77	206.10	140.05	178.32	244.18	208.92	149.70	160.28
Switzerland (50)	145.90	-0.2	145.57	99.98	126.96	133.28	-0.3	1.63	146.14	147.09	99.96	127.28	133.64	148.18	108.91	112.00
United Kingdom (217)	191.97	+0.5	191.53	131.53	167.01	191.53	-0.4	3.81	191.06	192.31	130.67	166.37	192.31	193.97	162.00	167.56
USA (519)	189.20	+0.1	188.77	129.65	164.62	189.20	+0.1	2.72	188.93	190.16	129.23	164.54	188.93	191.56	175.38	170.68
Europe (748)	162.34	+0.2	161.97	111.24	141.25	155.24	-0.2	2.95	162.07	163.13	110.85	141.15	155.59	162.97	133.92	135.85
Nordic (114)	191.58	-0.7	191.14	131.27	166.68	199.64	-0.4	1.23	192.86	194.11	131.91	167.95	200.50	194.54	142.13	145.49
Pacific Basin (713)	161.58	+0.4	161.21	110.72	140.58	114.88	+0.5	1.06	160.99	162.04	110.11	140.20	114.28	168.80	105.89	110.26
Euro-Pacific (1461)	161.78	+0.3	161.41	110.85	140.75	131.12	+0.2	1.83	161.33	162.38	110.33	140.48	130.84	162.86	117.26	120.61
North America (626)	185.58	+0.1	185.15	127.18	161.49	184.77	+0.1	2.72	185.35	186.56	126.79	161.44	184.51	187.68	171.51	167.27
Europe Ex. UK (531)	143.19	+0.0	142.86	98.14	124.61	133.84	-0.1	2.39	143.25	144.18	97.99	124.77	133.98	143.73	112.51	116.53
Pacific Ex. Japan (244)	230.34	+0.1	229.81	157.86	200.43	212.68	+0.0	2.73	230.22	231.72	157.48	200.50	212.64	232.16	152.70	159.36
World Ex. US (1647)	162.39	+0.3	162.02	111.28	141.30	133.20	+0.2	1.86	161.94	162.99	110.76	141.02	132.90	162.89	118.51	121.63
World Ex. UK (1949)	168.21	+0.2	167.83	115.27	146.37	146.65	+0.3	2.00	167.87	168.96	114.82	146.20	146.27	168.66	134.22	134.35
World Ex. So. Af. (2106)	170.12	+0.2	169.73	116.58	148.02	150.24	+0.2	2.17	169.74	170.84	116.10	147.82	149.96	170.46	137.29	137.20
World Ex. Japan (1697)	180.62	+0.2	180.21	123.78	157.18	176.16	+0.0	2.78	180.35	181.52	123.36	157.08	176.13	181.53	157.47	155.43
The World Index (2166)	170.31	+0.2	169.92	116.70	148.19	150.67	+0.2	2.18	169.92	171.02	116.22	147.98	150.38	170.68	137.32	137.24

Amendments to indices for 25/10/93 applied to the U.K., related regional indices and The World Index. Constituent changes with effect 27/10/93: Additions: New Rothmans Units (U.K), New Rothmans Units N.V. (Netherlands) and Vendome (U.K.). Deletion: Rothmans International 'B' (U.K.). Latest prices were unavailable for this edition. Markets closed 25/10/93: Ireland and New Zealand.